

Kohl's Corporation: The Anatomy of a Potential Short Squeeze in a Mispriced Legacy Retailer

DESCRIPTION

Kohl's Corporation (KSS) is a U.S. value-focused department store with a nationwide footprint, strong private label mix, and exclusive partnerships like Sephora. While facing structural headwinds and a highly leveraged balance sheet, its real estate value, buyback potential, and elevated short interest create conditions for a tactical squeeze opportunity.

KEY INDICATORS

Current price:	\$8.82
Price target	\$25.00
Rating	Buy
Projected upside	+283%

Investment Thesis

Kohl's Corporation offers a high-risk, high-reward event-driven opportunity driven by extreme short interest and a deeply discounted ~\$5 billion real-estate portfolio. While the company carries significant leverage and near-term credit distress risks—including tight liquidity and debt covenant pressures—its 53% short interest, four days-to-cover and potential unlocks of intrinsic NAV via share repurchases, real-estate sale-leasebacks or JV spinoffs, and tariff-driven consumer shifts position Kohl's for a substantial short squeeze, warranting an Outperform rating.

Last 12 months



TLDR

- **Structural Short Imbalance:** Projected short interest of 66% in a buyback scenario, with borrow scarcity and days-to-cover compression, creates conditions for a mechanically driven squeeze.
- **Underlying Real Estate Value:** 40.3M sq. ft. of owned property valued at \$135/sq. ft. supports a standalone NAV of \$46.12/share, leaving the possibility open for outsized buyouts or asset sales.
- **Normalization Potential:** Normalized EBIT of \$602.8M implies \$17.24/share under a 0% growth FCFF model and is supported by de-leveraging efforts, macro headwinds improving brand deals and better management.
- **Market Mispricing:** Bayesian blending of options and asset value yields a \$28.54/share expectation, with upside skew and a 95% CI of \$16.76–\$46.12. Representing a potential implied value given the recognition of the underlying NAV.
- **High Risk Setup:** Looking at long term bonds, the implied annual distress probability is 6.8% and the implied credit rating is a B2, highlighting the high risk nature of this event-driven change.

Who are Kohl's?

Kohl's Corporation (NYSE: KSS) is a U.S. omnichannel retailer founded in 1962 and headquartered in Menomonee Falls, Wisconsin. The company operates 1,165 mid-market department stores across 49 states alongside a fast-growing e-commerce platform (over 20% of sales). Kohl's combines value-priced private labels—Apt. 9, Tek Gear and Sonoma Goods for Life—with national and exclusive brands, and hosts more than 400 Sephora shop-in-shops. Its nine retail distribution centers and five e-fulfillment hubs enable seamless buy-online-pick-up-in-store, curbside pickup and same-day delivery.

We believe Kohl's offers a compelling buy opportunity: shares trade at just \$8 against an implied NAV of \$23–25 based on its \$6.8 billion owned real-estate portfolio, while nearly 48% of the float is held short. Key upside catalysts include a disciplined share-repurchase program to reduce float, sale-leaseback or JV spinoffs to crystallize property value, targeted merchandising and staffing investments to accelerate comps, incremental traffic from nearby JCPenney closures, digital momentum under a new interim CEO, and tariff-driven diversion of fast-fashion demand. Although the company carries leverage and faces execution risks on these initiatives, we view the combination of asset-backed value and event-driven catalysts as justifying an Outperform rating.

Zoom in: The Short Squeeze Opportunity

Kohl's has entered a state of structural disequilibrium rarely seen in liquid, institutionally-owned U.S. equities. As of mid-June 2025, short interest stands at 52.1% of shares outstanding—its highest level on record and among the top 0.1% of all U.S. large caps. When adjusted for effective float, excluding insiders and restricted shares, this figure rises to 72%, indicating an extreme concentration of bearish positioning. Such crowding introduces both mechanical risk for short holders and the conditions for a reflexive, catalyst-driven revaluation for equity holders. This unique situation of Kohl's has also taken the attention of many arbitrage players such as Two Sigma, Geode and Balyasny Asset Management, further solidifying the unusual opportunity.

Short squeezes generally require two ingredients: extreme positioning and a trigger. The first is already in place. The second may not require a surprise event. With average daily volume near 11.5 million shares and the float increasingly constrained by passive ownership (e.g., Vanguard, BlackRock, systematic funds), the days-to-cover ratio has compressed to just 5x as of June. At this velocity, even modest forced covering—on the order of 15–20%—could overwhelm market depth and produce nonlinear price dislocations.

Historical precedent supports this framework. In 2020, Macy's (M) exhibited a nearly identical setup: as its stock collapsed from \$16 to under \$5, short interest surged from 25% to 51% of float. While no single event triggered a squeeze, a gradual unwind ensued. Over the following 17 months, Macy's shares rallied more than 750%, despite persistently negative earnings. That unwind was driven not by fundamentals, but by position fragility and rising borrow costs. In a parallel scenario, Kohl's could retrace from ~\$8 to ~\$30–40 within 12–24 months under similar covering pressure, while a more immediate squeeze remains entirely plausible if a catalyst emerges.

In light of these dynamics, we model several pathways by which management could trigger or justify a squeeze mechanically. These include a dividend cut to fund buybacks, monetization of real estate via asset sales or a JV spinout, and the possibility of a private equity takeout. We also incorporate options market pricing and signals of a fundamental turnaround. The two core catalysts that underpin all scenarios are a contraction in float—whether by direct repurchase or structural reduction—and the unlocking of Kohl's materially understated real estate value, which serves as the foundation for both a re-rating and a liquidation floor.

Scenario A. Float Compression Through Buybacks and Dividend Reallocation

The most direct mechanism for triggering a mechanical squeeze is a float compression strategy through aggressive open-market share repurchases. In our modeled scenario, Kohl's reduces total shares outstanding from 112 million to 86 million—a 23.21% contraction—via a targeted buyback funded by suspending the dividend. This reduction, if implemented over a short time frame, would amplify short interest from 50.89% to 66.28% of float and simultaneously reduce lendable shares by an estimated 31.33%, from 49.11% to 33.72%. The result is a structurally tighter float where short sellers face mounting risk of unresolvable borrow. This dynamic is particularly powerful in conjunction with daily trading volume, which we project could increase 36.98% from 11.56 million to 15.84 million shares amid forced covering activity and speculative inflows, which would reduce shares outstanding to 77.45M over two days. While this reduces the nominal days-to-cover from 4.93 to 3.60, the net impact is increased volatility and reduced ability to exit positions without materially impacting price. Based on historical price elasticity in retail equities—where β values between 0.6 and 1.0 are common—we model a 15% forced covering over two sessions as producing a price move of approximately 44.6%, assuming a β (elasticity) of 0.77.

The capital required to execute such a buyback is readily available. Trailing 12-month free cash flow is at around \$180M, or roughly \$1.5-1.8 per share. Suspending the current dividend—estimated at \$0.50—would free an additional \$50 million annually. Combined with modest asset monetization or retained earnings deployment, the company could retire up to \$500 million in equity without balance sheet deterioration. In light of this information we have modeled a near full cash buyback of 26 million shares, using available dividends and cash flow, while reducing cost of debt down to 9.25% due to a projected improved outlook on the company's direction. Through this model we have estimated the raw effect of the buyback to be an increase of 31% on the share price, modeling through P/E and a classic equity value approach. Adding in the immense short interest, we estimate that the buyback would further push up stock price to a target of \$12.73 as shorts rush to cover shares, representing a 44.61% upside without any fundamental changes to the business' fundamentals.

Line Item	Pre-buyback	Post-buyback	% Change
Beta	1,33	1,33	
Debt to Equity Ratio	188,68%	188,71%	
Debt to Capital Ratio	65,36%	65,36%	
Cost of equity	11,82%	11,82%	
After-tax cost of debt	7,41%	7,22%	
Cost of capital	8,94%	8,81%	
Enterprise value	\$8.020,60	\$8.257,77	2,96%
Firm value	\$8.155,60	\$8.164,77	0,11%
Debt outstanding	\$7.170,00	\$7.170,80	0,01%
Equity value	\$985,60	\$993,97	0,85%
Number of shares	112,00	86,00	-23,21%
Price/share (Pre squeeze)	\$8,80	\$11,56	31,34%

Line Items	Pre-buyback	Post-squeeze	% Change
Short Interest	50,89%	66,28%	30,23%
Lendable Shares %	49,11%	33,72%	-31,33%
Average Daily Volume	11,56	15,84	36,98%
Forced Cover	-	15,00%	-
Days to Cover	4,93	3,60	-27,00%
Shares Outstanding	112,00	77,45	-30,85%
Beta-effect	-	0,77	-
Projected Squeeze Target	\$8,80	\$12,73	44,61%

	Pre-buyback	Post-buyback	% Change	\$ Change
Market capitalization	\$985,60	\$993,97	0,85%	\$8,37
Net Income	\$109,00	\$108,94	-0,05%	-\$0,06
Earnings per share	\$0,97	\$1,27	30,16%	\$0,29
PE ratio	9,04	6,95	-23,17%	
Implied price		11,45	30,16%	\$2,65

Figure 1, 2, 3: (1) Share buyback outright (2) Short squeeze effect (3) P/E calculation of buyback effect

Scenario B. Alternate Repricing: Private Equity Takeout or Real Estate JV

In our other modeled scenario we focus on possible real estate asset sales or buyouts of the firm. Kohl's owns approximately 40.3 million square feet of real estate across retail storefronts, distribution centers, and corporate facilities—substantially all held at depreciated historical cost. At a blended valuation of \$135 per square foot, the portfolio is worth an estimated \$5.4 billion. Moreover the reported property and equipment represent a significant tangible book value for Kohl's near \$7.3B, representing significant under appreciation of Kohl's assts. A full valuation breakdown is presented later in this report; here, we focus on strategic pathways to unlock this latent value.

In 2022, Franchise Group entered exclusive negotiations to acquire Kohl's at \$60 per share, implying an equity value of approximately \$8 billion. While the deal was not completed, the offer reflected a valuation framework anchored in monetizing Kohl's owned assets. Around the same time, Oak Street Real Estate Capital proposed acquiring a portion of Kohl's real estate for \$1.5–2.0 billion in a sale-leaseback structure, confirming third-party willingness to assign hard NAV to the footprint. Even without a full-scale transaction, partial monetization or spinout would unlock substantial value. A sale or JV involving just 30–40% of the portfolio could conservatively generate \$1.6–2.2 billion in gross proceeds. These funds could be deployed into accelerated share repurchases, capital structure optimization, or restructuring initiatives—without impairing Kohl's retail footprint.

Importantly, the sale of owned real estate would also produce a direct uplift to reported earnings. Kohl's currently records straight-line depreciation on the real estate portfolio, which suppresses GAAP earnings despite no underlying decline in asset value. We estimate that depreciation on owned real estate reduces EPS by approximately \$1.00 annually. Asset sales would reverse this suppression by eliminating the associated depreciation line and potentially realizing capital gains, depending on sale structure. Additionally, if real estate is sold above book value—which is likely given long-term inflation and historic cost accounting—net gains would flow through the income statement, resulting in a temporary, but material, EPS tailwind. A full exit from depreciated assets could conservatively add \$1.00–\$1.50 to annualized earnings depending on sale price, gain recognition rules, and leaseback treatment.

This path—whether pursued through a PE acquisition, partial REIT conversion, or JV spinout—offers a credible, externally anchored rerating mechanism.

(Dollars in Millions)	February 1, 2025	February 3, 2024
Land	\$1,078	\$1,088
Buildings and improvements:		
Owned	8,361	8,377
Leased	2,223	2,369
Fixtures and equipment	1,681	1,718
Information technology	1,164	1,326
Construction in progress	130	56
Total property and equipment, at cost	14,637	14,934
Less accumulated depreciation and amortization	(7,340)	(7,214)
Property and equipment, net	\$7,297	\$7,720

Figure 4: Kohl's book value, SeekingAlpha

Scenario C. Normalization: Earnings Stabilization, Intrinsic Value & Macro Tailwinds

We model a potential re-rating scenario in which Kohl's reverts to a normalized earnings profile supported by improving macro conditions and recent leadership changes. Using long-term pre-tax return on capital benchmarks, normalized EBIT is estimated at \$602.8 million, modestly above the current \$526 million, reflecting a return to mid-cycle efficiency rather than growth. Applying a 0% terminal growth rate within a free cash flow to firm framework, we estimate intrinsic equity value at \$17.24 per share. Scenario testing across -1% to +1% terminal growth yields a valuation range of \$8.54 to \$28.06, reflecting embedded asymmetry in base-to-bull cases.

What makes this normalization path more actionable is its reinforcement by external and internal catalysts. On the macro side, proposed reforms to the Section 321 de minimis exemption would impose tariffs on sub-\$800 imports from Temu and SHEIN, narrowing their structural cost advantage. Kohl's, with U.S.-based inventory and fulfillment, is positioned to capture share as pricing gaps compress. Concurrently, the recent addition of Walmart's former Global e-Commerce head to Kohl's executive team introduces operational upside. With experience in supply chain, digital merchandising, and inventory optimization, the new leadership's focus on better CapEx allocation, de-leveraging and deeper brand partnerships such as the increasing Sephora shop in shop roll-out could be an inflection point for the business.

Together, these forces increase the probability that normalized EBIT is not only defensible, but potentially conservative. In a short-constrained equity with an embedded hard asset floor, any earnings reversion—even modest—strengthens the re-rating case and accelerates pressure on the short book.

→ Invest in the Business

Capex of \$400MM to \$425MM will include investments to complete the Sephora rollout, expand impulse queuing fixtures, and enhance omni-channel experience

→ Optimizing Return of Cash

The Board has reduced the annual cash dividend to \$0.50 per share. Although we remain committed to returning capital to shareholders, this reduction allows for greater balance sheet flexibility

→ Reduce Debt

Our focus is on rebuilding our cash balance, reducing our reliance on the revolver and capitalizing on opportunities to further reduce our debt and overall leverage

→ Share Repurchases

Resume share repurchases over the long-term with excess cash flow following improvement in overall leverage

Value vs. Expected Growth

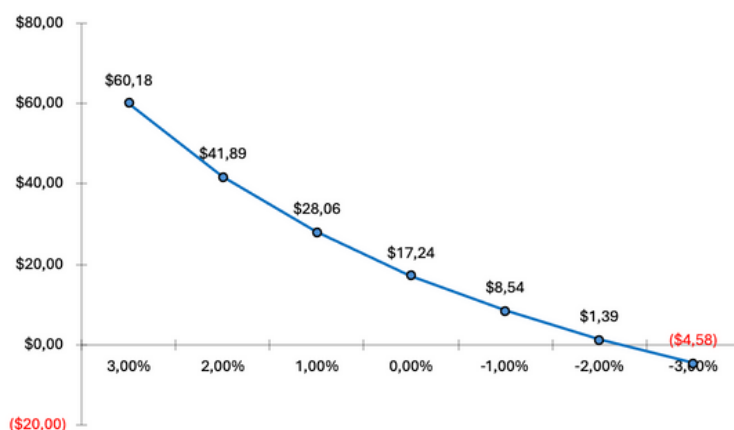


Figure 5 & 6: Kohl's stated objectives, (6) Stock price sensitivity to growth

Scenario D. Options Market Structure and Bayesian Upside Dynamics

The options market continues to price Kohl's as a terminally impaired retailer. January 2026 options imply a forward price of \$7.01, anchoring market expectations in a low-volatility, slow-decline scenario. Yet this market view fails to account for embedded asset value and capital structure optionality. Importantly, sentiment is already beginning to shift: the put-call open interest ratio has stayed below 1.0 for over six months, even as total open interest has remained stable. This reflects declining demand for downside protection and growing long-biased positioning—early signs of regime change in a heavily shorted stock.

To quantify the asymmetry, we constructed a Bayesian posterior distribution combining the market-implied view with a fundamental valuation prior based on real estate value. Using a lognormal distribution for per-square-foot valuation across Kohl's 40.3 million square feet of owned property, we applied a mean of \$135/sq. ft. and standard deviation of \$40.2, calibrated from national U.S. listing data. This generated an intrinsic equity estimate of \$46.12/share, excluding operating value.

Blending this prior with the options-implied distribution yields a Bayesian expected equity value of \$28.54/share, with a 95% confidence interval from \$16.76 to \$46.12. The result reflects a highly skewed return profile: while market-implied outcomes remain anchored at the low end, the weight of asset-driven value realization shifts the expected distribution sharply to the right—highlighting the convexity in the trade even without a fundamental turnaround.

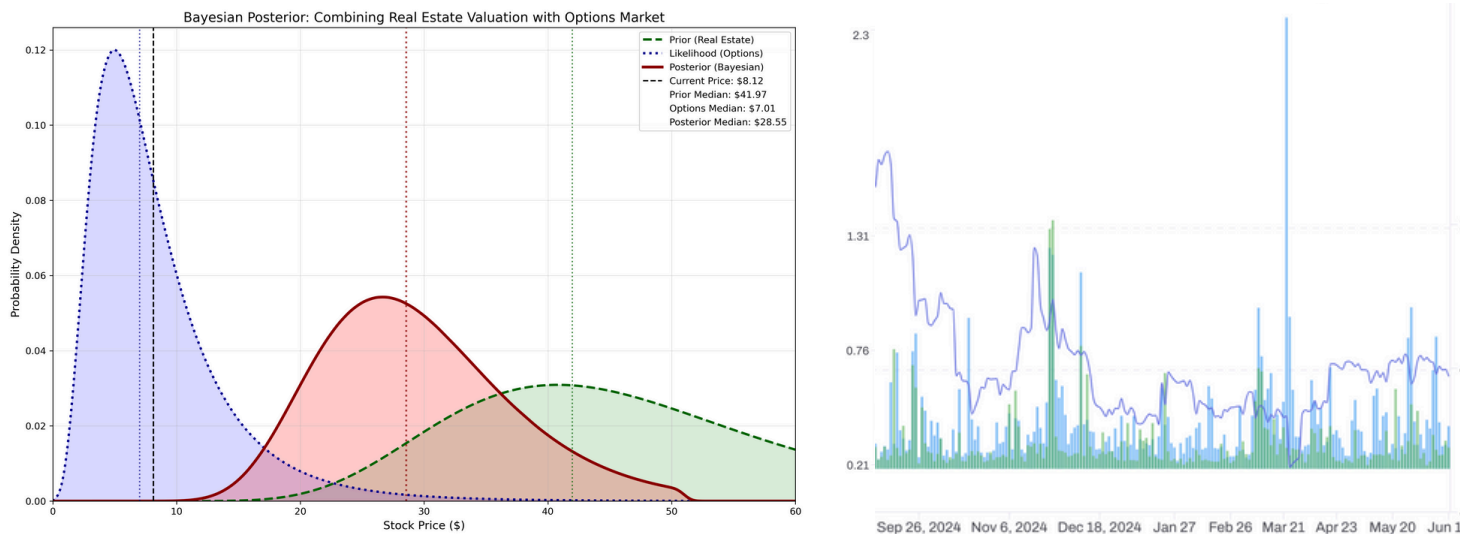


Figure 7 & 8: Bayesian Posterior, Put/Call OI ratio

The Composite Valuation and Price Target

Our framework incorporates an expected value from four distinct valuation paths, derived from our scenarios, each representing a different mechanism for value realization: operational normalization, asset monetization, market repricing, and a short squeeze scenario.

1. Normalized Earnings – Using historical pre-tax return on capital, we model normalized EBIT at \$602.8 million. A 0% terminal growth FCFF model yields an equity value of \$17.24/share, with scenario sensitivity between \$8.54 and \$28.06, depending on terminal assumptions.

2. Real Estate NAV – Applying a lognormal distribution to Kohl's 40.3 million sq. ft. of owned property at a \$135/sq. ft. mean and \$40.2 standard deviation, we estimate an implied equity value of \$46.12/share based solely on the real estate footprint.

3. Bayesian Posterior – Combining the real estate valuation as a prior with January 2026 option pricing as the market-implied likelihood distribution, we generate a posterior estimate of \$28.54/share, with a 95% confidence interval from \$16.76 to \$46.12.

4. Short Squeeze Dynamics – In a mechanically triggered covering event—driven by float compression, a buyback, or asset monetization—we estimate a near-term price target of \$15–20/share, based on projected forced covering of ~15% of float and retail beta-elasticity assumptions around 0.7.

Taking these paths together, and weighting by probability, execution risk, and market structure fragility, we set a **composite price target of \$25/share**, reflecting both structural upside and the convexity of potential outcomes.

Risks

The primary risk to the thesis lies in operational inertia. Without meaningful action—such as float reduction, real estate monetization, or margin stabilization—short interest may remain elevated but unresolved, delaying or negating the squeeze dynamic. A continued decline in SG&A efficiency or stagnation in top-line growth would also erode normalized EBIT, compressing the earnings-based valuation floor.

Credit risk is increasingly material. While Kohl's has no debt maturing until 2030, its 2045-dated 5.55% bond (FIGI: BBG009LH9PG7) currently trades at 51.25 cents on the dollar, reflecting distressed market sentiment. Using our distress estimation model and current trading levels of the bond, we reach an **implied annual distress probability is 6.80%**, assuming a 4.5% risk-free rate. This is corroborated by fundamental coverage metrics: with an adjusted interest coverage ratio of 2.20x, **the implied bond rating falls in the B2/B range, consistent with a default spread of 3.61%** and an estimated cost of debt of ~9%. These figures suggest the market views Kohl's as a borderline high-yield credit with deteriorating flexibility.

Rising spreads or tightening liquidity conditions could push Kohl's closer to a capital structure event, particularly if operating cash flows weaken further. In such a case, management may be forced to pursue defensive asset sales or equity-linked financing—dilutive or value-destructive at current prices.

Finally, while real estate provides a strong underpinning to the valuation, cap rate sensitivity remains a risk. A macro-driven re-pricing in U.S. retail property markets would compress NAV and reduce the asset floor that supports the bull and squeeze scenarios.

Conclusion

Kohl's presents a deeply asymmetric equity setup built on capital structure fragility, real asset mispricing, and one of the most crowded short books in U.S. large-cap equities. With short interest exceeding 66% of float in our modeled post-buyback scenario, and borrow costs approaching double digits, any action that tightens float—through buybacks, JV asset monetization, or credible operational signaling—has the potential to trigger a mechanical covering cascade.

Our valuation framework spans multiple pathways: normalized earnings, real estate NAV, options-implied pricing, and structural squeeze mechanics. Each independently supports upside from current levels, with our composite target of \$25/share reflecting a probability-weighted midpoint across fundamental, structural, and sentiment-driven outcomes.

Credit pressure, execution inertia, and macro shocks remain real risks. But the probability-weighted return profile is skewed decisively positive, and the presence of institutional volatility-seeking capital—alongside a real asset base and improving option sentiment—further reinforces the likelihood of re-rating.

We view Kohl's as a high-risk and high-reward trade with embedded catalysts, where inaction by management sustains undervaluation and action forces repricing. The imbalance is visible. The trigger requires only discipline.