## *PLEASE VOTE YOUR WHITE PROXY CARD TODAY*

**March 29, 2021**

**Dear Fellow Kohl's Shareholder:**

Macellum Advisors GP, LLC, Ancora Holdings, Inc., Legion Partners Asset Management, LLC, and 4010 Capital, LLC (collectively, the "Investor Group" or "we") beneficially own a total 14,696,905 shares of Kohl's Corporation, a Wisconsin corporation, ("Kohl's" or the "Company"), including 2,447,000 shares underlying call options currently exercisable, constituting approximately 9.3% of the Company's outstanding common stock, par value $0.01 per share (the "Common Stock"), and making us one of the Company's largest shareholders. We are seeking your support on the **WHITE** proxy card to vote FOR our five highly qualified director nominees – Jonathan Duskin, Margaret L. Jenkins, Jeffrey A. Kantor, Thomas A. Kingsbury and Cynthia S. Murray – at the Company's upcoming annual meeting of shareholders scheduled for May 12, 2021.

## KOHL'S EXECUTIVE COMPENSATION APPEARS TO SERVE EXECUTIVES NOT SHAREHOLDERS OR EMPLOYEES

As stewards of shareholder capital, one of a board's most important responsibilities is to have a compensation program that sets fair and thoughtful targets to properly align pay with performance. We believe the Kohl's Board has failed in this regard. In our view, the Board has created a compensation plan that rewards executives despite years of underperformance, by consistently setting short and long-term targets for bonuses below prior years' results. We contend that this "heads we win, tails shareholders lose" structure is diametrically opposed to shareholder alignment and value creation.

As shown below, the Board's recently disclosed compensation decisions for 2020 – a year in which net sales declined 20% and adjusted net income was a loss of $186 million – highlight the Board's failure to appropriately align compensation with performance:

- ✖ Total compensation for Kohl's CEO **increased by 43%** in 2020, resulting in $12.9 million in aggregate compensation.
- ✖ 2020 compensation for Kohl's CEO **was the highest earned by a Kohl's executive in 15 years,** despite the fact that 2020 financial performance was the worst by far over that time period.
- ✖ The **CEO pay ratio was 1,098:1** in 2020 between Kohl's CEO and the median employee, increasing from 923:1 in 2019.

This exorbitant CEO compensation stands in stark contrast to the fate of Kohl's employees, 85,000 of which were furloughed for several months and who we estimate were **paid nearly 10%** less in the aggregate in 2020 compared to 2019.

## 2020 IS NOT AN OUTLIER – KOHL'S MANAGEMENT HAS BEEN RICHLY REWARDED FOR YEARS DESPITE DECLINING OPERATING RESULTS

From 2011 to 2019, Kohl's paid its top five executives more than $278 million in total compensation. While this sum is quite staggering on its own, what is most concerning for shareholders is that the Company underperformed its industry group by a wide margin over this period. From 2011 to 2019, Kohl's net sales stagnated from $18.8 billion in 2011 to $18.9 billion in 2019, with compounded same store sales *declining* by 1%. Over the same period, the "Clothing and Clothing Accessory Store" industry, as reported by the U.S. Census Bureau in the Annual Retail Trade Survey, grew 17% in net sales. Worse still, Kohl's operating income dropped by almost $1 billion, or 44%, from $2.2 billion in 2011 to $1.2 billion in 2019.

Despite this underperformance, Kohl's CEO received a 250% bonus in both 2017 and 2018, in addition to a 118% payout under the Company's 2016-2018 long-term incentive plan ("LTIP"), after the Company badly missed its own targets for those periods set in the Greatness Agenda just a few years earlier.

In light of this misalignment of pay with performance, shareholders deserve an answer to one simple question:

## HOW COULD THE KOHL'S BOARD APPROVE SUCH OUTRAGEOUS EXECUTIVE COMPENSATION FOR DETERIORATING RESULTS?

Shareholders rely on boards to design and implement executive compensation programs which provide appropriate alignment and long-term incentives to help drive sustainable value creation. The decisions boards make with regard to executive compensation offer a window into their culture, alignment, respect for shareholders' capital, and desire to create shareholder value.

**The message from Kohl's Board to its shareholders seems loud and clear – executives will continue to be rewarded regardless of long-term operating results or share price performance.** Kohl's Board has demonstrated a troubling long-term track record of continuously lowering the bar and paying higher and higher levels of compensation for deteriorating results.

> ***"How Could the Kohl's Board Approve Such Outrageous Executive Compensation for Deteriorating Results?"***

Kohl's stated compensation philosophy contained in every annual proxy statement is as follows:

*"As part of our pay for performance philosophy, our goals are intended to be difficult to achieve, and failure to achieve the goals has significant consequences."*

Yet despite this credo, Kohl's annual and long-term incentive plans show a consistent pattern of rewarding executives with excessive compensation for meeting an ever-declining set of objectives. Kohl's LTIP consists of rolling three-year cumulative targets for sales and net income. The three-year measurement periods overlap as a new program is set each subsequent year. Far from being "difficult to achieve," the 2017 to 2019 LTIP set a "Target Level" for sales and net income which would pay out a 100% performance share unit award to management for achieving average annual sales of 2% less than actual sales in 2016 and average annual adjusted net income 23% below adjusted 2016 net income.

| Kohl's Long-Term Incentive Plans ($mm) | 2014–2016 | 2015–2017 | 2016–2018 | 2017–2019 | 2018–2020 |
|---|---|---|---|---|---|
| Average 3-Yr Sales Target | $19,867 | $20,230 | $ 19,593 | $18,327 | $18,863 |
| *% chg vs. immediately preceding year* | *4%* | *7%* | *2%* | *(2%)* | *(2%)* |
| Average 3-Yr Adjusted Net Income Target | $913 | $923 | $773 | $520 | $777 |
| *% chg vs. immediately preceding year* | *3%* | *6%* | *(1%)* | *(23%)* | *(9%)* |
| Average 3-Yr Sales, Actual | $18,971 | $18,993 | $18,946 | $19,029 | $17,694 |
| *% chg vs. immediately preceding year* | *(0%)* | *0%* | *(1%)* | *2%* | *(7%)* |
| Actual 3-Yr Average Adjusted Net Income | $774 | $740 | $789 | $821 | $419 |
| *% chg vs. immediately preceding year* | *(13%)* | *(15%)* | *1%* | *22%* | *(51%)* |
| **CEO LTIP Payout as % of Target Level** | **62.4%** | **25.1%** | **118.3%** | **200.0%** | **83.5%** |

Source: SEC Filings
Note: Net Income adjusted to exclude non-recurring items. 2018 net income compares to 2017 figure after adjusting for decline in corporate tax rate

The 2018-2020 LTIP also set Target Levels below the prior year's actual results, yet the Board still saw fit to apparently manipulate the structure of this plan to ensure a payout. The Board explains in the Company's 2021 Proxy Statement that given the devastating impact of COVID in 2020, it became clear that management would not hit the three-year cumulative targets for this tranche.

| Metric | 2018–2020 Goal | 2018 Actual | 2019 Actual | 2020 Actual | 2018–2020 Actual | Actual vs. Goal |
|---|---|---|---|---|---|---|
| Net Sales | **$56,590** | $19,167 | $18,885 | $15,031 | **$53,083** | **(6%)** |
| Adjusted Net Income | **$2,330** | $927 | $769 | ($186) | **$1,510** | **(35%)** |

Source: SEC Filings

**Rather than allow management to "suffer" just as Kohl's employees and communities had, the Board lowered the bar by amending the plan to a retroactive annual plan rather than a cumulative long-term plan, creating a windfall for management that would not have been payable under the original plan.** Importantly, the Board made this change in January 2021, long after the economy showed signs of recovering from the COVID pandemic and when it was known to the Board that the large performance share unit award granted to the CEO in March 2020 had appreciated dramatically (to a potential value of more than $25 million). As a result of the Board's ex post facto adjustments, Kohl's CEO received an average LTIP payout of 98% of the target during the last five years, while from the period 2014 to 2019 (excluding COVID-impacted 2020) Kohl's sales declined by 1% and tax-adjusted net income declined by 26%.

This disturbing pattern of paying for underperformance and continuously setting the bar lower is equally evident in Kohl's Annual Incentive Plan structure. As shown in the table below, the Annual Incentive Plan approved by the Board each year has enabled the CEO to achieve multi-million dollar incentive payouts despite a persistent decline in adjusted net income. In our view, the Board's construction of this plan demonstrates a flawed philosophy of lowering the threshold net income goal each year to a level at or below actual performance in the previous year.

| **Annual Incentive Plan** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted net income ($mm) | $1,167 | $986 | $889 | $867 | $781 | $673 | $703 | $927 | $769 | ($186) |
| *% Change from 2011 (1)* | | *(16%)* | *(24%)* | *(26%)* | *(33%)* | *(42%)* | *(40%)* | *(35%)* | *(46%)* | *(113%)* |
| Threshold Tier net income goal ($mm) | | $1,080 | $900 | $890 | $855 | $781 | $596 | $770 | $880 | N/A |
| *% Change vs. prior year adj. net income (2)* | | *(7%)* | *(9%)* | *0%* | *(1%)* | *0%* | *(11%)* | *(10%)* | *(5%)* | *N/A* |
| *% Change from 2014 - the initiation of 'Greatness Agenda' (1)* | | | | | *(1%)* | *(10%)* | ***(31%)*** | *(26%)* | *(15%)* | *N/A* |
| CEO Annual Incentive Plan Award ($ '000) | | $532 | $536 | $541 | $553 | $562 | $3,563(3) | $3,500 | $0 | $2,505 |
| *CEO Award as % of base salary* | | *40%* | *40%* | *40%* | *40%* | *40%* | ***250%*** | *250%* | *0%* | *175%* |

Note: (1) Cumulative change % for 2018, 2019 and 2020 are calculated using a tax rate of 23.2% applied to the 2011 and 2014 adjusted net income. (2) Change % for 2018 is calculated using a tax rate of 23.2% applied to the 2017 adjusted net income. (3) Plus an additional $3.5 million award for CEO-elect Michelle Gass.

As a result, Kohl's CEO was paid:

- ✖ **A "Top Tier" 250% bonus in 2017 for achieving adjusted net income that was 19% below 2014, the baseline year for the "Greatness Agenda"**
- ✖ **Another "Top Tier" 250% bonus for 2018 adjusted net income that was still 11% below 2014 after adjusting for tax differences**

The performance bar has been lowered so frequently that by 2019 the threshold to achieve a bonus had fallen 38% from 2011 actual net income (tax adjusted).

As with the LTIP, the Board amended the Annual Incentive Plan in 2020, enabling a large annual bonus for the CEO and other named executive officers. Specifically, the Board removed all objective quantitative measures, instead basing 50% of bonuses on Kohl's sales results compared to a curated peer group, and 50% on the Board's discretion. This enabled the CEO to receive a $2.5 million bonus in 2020 even though sales declined 20% and earnings were negative. Again, this change was made in addition to amendments to the LTIP, which separately rewarded the CEO handsomely, and under a backdrop in which Kohl's employees appeared to be suffering an approximate 10% pay cut.

The Board proclaims to shareholders in Kohl's proxy statements that a "failure to achieve target goals has significant consequences," but this feels like an incredibly hollow statement in light of the Board's actions, which speak louder than words. In addition, the assertion that "As part of our pay for performance philosophy, our goals are intended to be difficult to achieve" seems absurd in light of all the evidence to the contrary.

We believe the Board's broken culture of rewarding management for mediocre or downright poor performance stems in part from their propensity to compare Kohl's to the narrow, ailing department store sector rather than to a broader, more relevant group of discretionary soft-goods retailers. A deeper level of relevant retail experience on the Board would contribute to a better understanding of the true competitive environment and to the design of more appropriate incentive structures.

## THE FIVE INCUMBENT DIRECTORS WE ARE OPPOSING SHOULDER SIGNIFICANT RESPONSIBILITY FOR KOHL'S MISALIGNED COMPENSATION PLANS

Our campaign aims to remove the following five directors from the Kohl's Board. Each of these directors lacks retail apparel expertise, and they have served on the Board for an average of 16 years. Importantly, three of the five (Messrs. Burd, Prising and Sica) are current members of the Compensation Committee, with Mr. Prising serving as its Chair, and have been deeply involved in designing and implementing what we believe is a flawed compensation program at Kohl's. The five incumbent Kohl's directors we are seeking to remove are as follows:

In contrast, the Investor Group is targeting five incumbent members of Kohl's Board who have served for an average tenure of **16 years** and **lack relevant retail expertise**.

| BOARD CANDIDATE | AGE | TENURE | EXPERIENCE | APPAREL RETAIL | RETAIL | MARKETING / CUSTOMER EXP. | E-COMM | OPERATIONS | MERCHANDISING | CAPITAL MARKETS |
|---|---|---|---|---|---|---|---|---|---|---|
| **Steven A. Burd*** | 71 | 19 | Grocery Stores | ✗ | ✓ | ✗ | ✗ | ✓ | ✗ | ✗ |
| **Jonas Prising*** (Chair of Compensation Committee) | 56 | 5 | Staffing | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |
| **John E. Schlifske** | 61 | 9 | Insurance | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✓ |
| **Frank V. Sica*** (Chairman of the Board) | 70 | 33 | PE Investor | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ |
| **Stephanie A. Streeter** (Chair of Audit Committee) | 63 | 14 | Consumer Goods | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |

* Member of Compensation Committee

✓ **Our Nominees Have the Relevant Retail and Governance Expertise to Better Align Kohl's Compensation Sstructure with Shareholders**

✓ Our five director nominees bring significant apparel retail expertise and a strong desire to improve Kohl's compensation practices:

| BOARD CANDIDATE | AGE | TENURE | EXPERIENCE | APPAREL RETAIL | RETAIL | MARKETING / CUSTOMER EXP. | E-COMM | OPERATIONS | MERCHANDISING | CAPITAL MARKETS |
|---|---|---|---|---|---|---|---|---|---|---|
| **Margaret L. Jenkins** | 69 | -- | Marketing & Apparel Retail | ✓ | ✓ | ✓ | | | | |
| **Thomas A. Kingsbury** | 68 | -- | Apparel Retail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Jonathan Duskin** | 53 | -- | Investor & Retail Specialist | ✓ | ✓ | | ✓ | | | ✓ |
| **Jeffrey A. Kantor** | 62 | -- | Apparel Retail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| **Cynthia S. Murray** | 63 | -- | Apparel Retail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Revitalizing Kohl's strategy and improving compensation practices are not a short-term focus. Our desire is to build long-term value and we have carefully selected directors who we believe are far better positioned to turnaround Kohl's than the Company's five stale directors with irrelevant skillsets who have overseen significant underperformance at Kohl's.

If you have any questions or require assistance with your vote, please contact Saratoga Proxy Consulting, who is assisting us, and whose contact information appears below.

Thank you for your support,

**Jonathan Duskin**
**Macellum Advisors GP, LLC**

**Frederick DiSanto**
**Ancora Holdings, Inc.**

**Christopher Kiper**
**Legion Partners Asset Management, LLC**

**Steve Litt**
**4010 Capital, LLC**

**About Macellum**

Macellum Advisors GP, LLC, together with its affiliates (collectively, "Macellum") have substantial experience investing in consumer and retail companies and assisting such companies in improving their long-term financial and stock price performance. Macellum's historical investments include: Collective Brands, GIII Apparel Group, Hot Topic, Charming Shoppes and Warnaco, among other companies. Macellum prefers to constructively engage with management to improve its governance and performance for the benefit of all stockholders, as we did with Perry Ellis. However, when management is entrenched, Macellum has run successful proxy contests to effectuate meaningful change, including at The Children's Place Inc., Christopher & Banks Corporation, Citi Trends, Inc. Bed Bath and Beyond Inc. and most recently at Big Lots, Inc.

**About Ancora**

Ancora Holdings, Inc. is an employee owned, Cleveland, Ohio based holding company, which wholly owns four separate and distinct SEC Registered Investment Advisers and a broker dealer. Ancora Advisors LLC specializes in customized portfolio management for individual investors, high net worth investors, investment companies (mutual funds), and institutions such as pension/profit sharing plans, corporations, charitable & "Not-for Profit" organizations, and unions. Ancora Family Wealth Advisors, LLC is a leading, regional investment and wealth advisor managing assets on behalf of families and high net-worth individuals. Ancora Alternatives LLC specializes in pooled investments (hedge funds/investment limited partnerships). Ancora Retirement Plan Advisors, Inc. specializes in providing non-discretionary investment guidance for small and midsize employer sponsored retirement plans. Inverness Securities, LLC is a FINRA registered Broker Dealer.

**About Legion Partners**

Legion Partners is a value-oriented investment manager based in Los Angeles, with a satellite office in Sacramento, CA. Legion Partners seeks to invest in high-quality businesses that are temporarily trading at a discount, utilizing deep fundamental research and long-term shareholder engagement. Legion Partners manages a concentrated portfolio of North American small-cap equities on behalf of some of the world's largest institutional and HNW investors.

**About 4010 Capital**

4010 Capital is a value-oriented investment manager with substantial experience investing in the consumer discretionary sector. 4010 Capital employs comprehensive fundamental analysis to invest in companies which it believes are trading at a discount to intrinsic value and have a pathway to improving operating performance.

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