

Risk Factors Comparison 2025-03-20 to 2024-03-21 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

General economic conditions, consumer spending levels, and / or other conditions could decline. Consumer spending habits, including spending for the merchandise that we sell, are affected by many factors including prevailing economic conditions, inflation and measures to control inflation, consumer responses to recessionary concerns, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy and fuel costs, income tax rates and policies, consumer confidence, consumer perception of economic conditions, and the consumer's disposable income, credit availability, and debt levels. The moderate-income consumer, which is our core customer, is especially sensitive to these factors. A slowdown in the U. S. economy or an uncertain economic outlook could adversely affect consumer spending habits. As all of our stores are located in the United States, we are especially susceptible to deteriorations in the U. S. economy. Consumer confidence is also affected by the domestic and international political ~~situation~~ **environment**. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the United States, could lead to a decrease in spending by consumers. Future pandemics could have a material adverse impact on our business, financial condition, and results of operations. The impact of, and actions taken in response to COVID- 19, had a significant impact on the retail industry generally and our business. Future pandemics could have a material adverse effect on our business, financial condition, and results of operations. ~~Our competitors could make changes to their pricing and other practices. The retail industry is highly competitive. We compete for customers, associates, locations, merchandise, services, and other important aspects of our business with many other local, regional, and national retailers. Those competitors include online retailers, off-price retailers, warehouse clubs, mass merchandisers, specialty stores, traditional department stores, and other forms of retail commerce. We consider product and value to be the most significant competitive factors in our industry. The continuing migration and evolution of retailing to digital channels has increased our challenges in differentiating ourselves from other retailers especially as it relates to national brands. In particular, consumers can quickly and conveniently comparison shop with digital tools, which can lead to decisions based solely on price. Unanticipated changes in the pricing and other practices of our competitors may adversely affect our performance and lead to loss of market share in one or more categories.~~ Tax, trade, and climate, and other ESG- related policies and regulations could change or be implemented and adversely affect our business and results of operations. Uncertainty with respect to tax and trade policies, tariffs, and government regulations affecting trade between the United States and other countries has recently increased. The majority of goods ~~we sourced~~ **source** are manufactured outside of the United States, primarily in Asia. Major developments in tax policy or trade relations, such as the imposition of tariffs on imported products, could have a material adverse effect on our business, results of operations, and liquidity. Furthermore, increased governmental focus on climate change and other ESG matters may result in complex regulatory requirements that may directly or indirectly have a significant impact on the costs of our operations, including energy, resources used to produce our products and compliance costs, which may have a material adverse effect on our business and results of operations. ~~While increased~~ **We also expect there will likely be increasing** levels of regulation, disclosure- related and otherwise, with respect to ESG matters ~~remain in flux under the new presidential administration, increased-increased~~ **regulation, generally or in specific jurisdictions such as California, and increased and differing governmental and** stakeholder expectations will likely lead to increased costs as well as scrutiny that could heighten all of the ESG- related risks ~~to which~~ **we are subject to**. Additionally, many of our suppliers may be subject to similar regulations and expectations, which may exacerbate existing risks or create new ones, including risks that may not be known to us. Any of these developments may have a material adverse effect on our business and results of operations. **Regulatory and legal matters could adversely affect our business operations and change financial performance. Various aspects of our operations are subject to federal, state, or local laws, rules, and regulations, including consumer regulations, any of which may change from time to time. The costs and other effects of new or changed legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent such requirements increase prices of goods and services, reduce the availability of raw materials, or further restrict our ability to extend credit to our customers. We continually monitor the state and federal legal and regulatory environments for developments that may impact us. Failure to detect changes and comply with such laws and regulations may result in an erosion of our reputation, disruption of business, and / or loss of associate morale. Additionally, we are involved in various legal matters and regulatory proceedings that arise out of the conduct of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance, given the expense, resources, and impact on our reputation that could result from involvement in these proceedings and compliance with regulatory developments and / or settlements or consent decrees resulting from these proceedings. Weather conditions and natural disasters could adversely affect consumer shopping patterns and disrupt our operations. Our business is apparel, footwear, accessories, beauty, and home products. Both our business and our supply chain are subject to weather conditions. As a result, our operating results may be adversely affected by severe or unexpected weather conditions (including those that may be caused by climate change). Frequent or unusually heavy snow, ice, or rain storms; natural disasters such as earthquakes, tornadoes, floods, fires, and hurricanes; or extended periods of unseasonable temperatures or droughts could adversely affect our supply chain or our performance by affecting consumer shopping patterns and diminishing demand for seasonal merchandise. In addition, these events could cause physical damage to our properties or impact our supply chain, making it difficult or impossible to timely deliver seasonally appropriate merchandise. Climate change may impact the frequency and / or intensity of such events,**

as well as contribute to various chronic changes in the physical environment. Although we maintain crisis management and disaster response plans and may take various actions to mitigate our business risks associated with such events and climate change, our mitigation strategies may be inadequate to address such a major disruption event. Further, unseasonable weather conditions, including unusually warm weather in the fall or winter months or abnormally wet or cold weather in the spring or summer months, whether due to climate change or otherwise, could have a material adverse effect on our business, financial condition, and operating results, as consumer spending may be inconsistent with our typical inventory purchasing cycle. Strategic, Competitive, and Operational Risks or winter months or abnormally wet or cold weather in the spring or summer months, whether due to climate change or otherwise, could have a material adverse effect on our business, financial condition, and operating results, as consumer spending may be inconsistent with our typical inventory purchasing cycle. We may be unable to successfully execute an omnichannel strategy. Customer expectations regarding how about the methods by which they purchase and receive products or services are continuously evolving. Customers are increasingly using technology and mobile devices to rapidly compare products and, check prices, and to make purchase purchases products. Once products are purchased, customers are seeking alternate options for delivery of those products. We To stay competitive, we must continually anticipate and adapt to these changes in consumer behavior. The success of our omnichannel strategy depends on delivering a seamless shopping experience—both in-store and online. This requires maintaining uninterrupted availability of our website and supporting applications, adequate and accurate inventory levels, timely fulfillment of customer orders, accurate shipping of undamaged products, and integrating the these purchasing process efforts across our physical locations. Our physical stores play a crucial role in attracting customers, driving traffic to digital channels, and supporting fulfillment, returns, and other omnichannel functions. Our ability to compete with other retailers and to meet our customers' expectations may suffer if we are unable to provide relevant customer-facing technology, a compelling in-store experience, and positive omnichannel experiences. As we continue We have taken steps to simplify refine our omnichannel value strategy by eliminating online-only promotions in favor of omnichannel pricing across the enterprise. This pressured our digital performance in 2023. While we believe this approach aligns with our long-term strategy, our efforts may not produce the intended results. Similarly, as we refine our value strategy to be less promotional, our efforts may negatively impact the loyalty of certain customers and our efforts to mitigate this impact may not be successful. In addition, Additionally, declining store traffic or shifting sales from physical stores to digital platforms could lead to store closures, restructuring and other costs, and adverse effects on our financial performance. Furthermore, our ability to compete may also suffer if Kohl's, our suppliers, or our third-party shipping and delivery vendors are unable to effectively and efficiently fulfill and deliver orders, especially during the holiday season when sales volumes are especially high. Consequently, Any disruptions in these areas could adversely affect our results of operations could be adversely affected. Our business is seasonal in nature, which could negatively affect our sales, revenues, operating results. We may be unable to offer merchandise that resonates with existing customers and attracts new customers as well as successfully manage our inventory levels. Our business is dependent on our ability to anticipate fluctuations in consumer demand for a wide variety of merchandise. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns, and other lifestyle decisions could create inventory imbalances and adversely affect our performance and long-term relationships with our customers. Additionally, failure to accurately predict changing consumer tastes may result in excess inventory, which could result in additional markdowns and adversely affect our operating results. Negative publicity surrounding us, our activities, or the products we offer, including consumer perception of our response to political and social issues, and campaigns by political activists promoting certain causes, could adversely impact our brand image and may decrease demand for our products, thereby adversely affecting our business, results of operations, cash flows or financial condition. As with most retailers, we also experience inventory shrinkage due to theft or damage. Higher rates of inventory shrinkage or increased security or other costs to combat inventory shrinkage could adversely affect our results of operations and financial condition, and our efforts to contain or reduce inventory shrinkage may not be successful. Our competitors could make changes to their pricing and other practices. The retail industry is highly competitive. We compete for customers, associates, locations, merchandise, services, and other important aspects of our business with many other local, regional, and national retailers. Those competitors include online retailers, off-price retailers, warehouse clubs, mass merchandisers, specialty stores, traditional department stores, and other forms of retail commerce. We consider product and value to be the unable to source merchandise in a timely and cost most significant competitive factors in our industry effective manner. A third-party purchasing agent sources approximately 15% of the merchandise we sell. The continuing migration and evolution of remaining retailing merchandise is sourced to digital channels has increased our challenges in differentiating ourselves from a wide variety of domestic and other retailers especially as it relates to international national vendors. Our ability to find qualified vendors and access to brands or products in a timely manner is a significant challenge conveniently comparison shop with digital tools, which is typically even more difficult for goods sourced outside the United States, substantially all of which are shipped by ocean can lead to ports in the United States decisions based solely on price. Unanticipated Political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs, pandemic outbreaks, work stoppages, port strikes, port congestion and delays, information technology challenges changes, in the pricing and other factors relating to foreign trade are beyond conditions, transportation costs, energy prices practices, work stoppages, government regulation and policy, economic climates, market speculation, and other unpredictable factors. An inability to mitigate these cost increases, unless sufficiently offset with our pricing actions, might cause a decrease in our operating results. Any related pricing actions might cause a decline in our sales volume. Additionally, a reduction in the availability of raw materials could impair the ability to meet production or our competitors purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel, and labor may also have an adverse impact on our cash and working capital needs as well as those of our

suppliers. If any of our significant vendors were to become subject to bankruptcy, receivership, or similar proceedings, we may be unable to arrange for alternate or replacement contracts, transactions, or business relationships on terms as favorable as current terms, which could adversely affect our sales performance and lead operating results. Our vendors may not adhere to loss our Terms of market share Engagement or to applicable laws. A substantial portion of our merchandise is received from vendors and factories outside of the United States. We require all of our suppliers to comply with all applicable local and national laws and regulations and our Terms of Engagement for Kohl's Business Partners. These Terms of Engagement include provisions regarding laws and regulations, employment practices, ethical standards, environmental and legal requirements, communication, monitoring / compliance, record keeping, subcontracting, and corrective action. From time to time, suppliers may not be in compliance with these standards or applicable laws. Significant or continuing noncompliance with such standards and laws by one or more categories suppliers could have a negative impact on our reputation and our results of operations. Our marketing may be ineffective. We believe that differentiating Kohl's in the marketplace is critical to our success. We design our marketing and loyalty programs to increase awareness of our brands and to build personalized connections with new and existing customers. We believe these programs will strengthen customer loyalty, increase the number and frequency of customers that shop our stores and website, and increase our sales. If our marketing and loyalty programs are not successful or efficient, our sales and operating results could be adversely affected. Our business is seasonal in nature, which could negatively affect our sales, revenues, operating results, and cash requirements. Our business is subject to seasonal influences, with a major portion of sales and income historically realized during the second half of the fiscal year, which includes the back- to- school and holiday seasons. If we do not adequately stock or restock popular products, particularly during the back- to- school and holiday seasons, we may fail to meet customer demand, which could affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write- offs, which could reduce profitability. Underestimating customer demand, or failing to timely receive merchandise to meet demand, can lead to inventory shortages and missed sales opportunities, as well as negative customer experiences. We have and may continue to experience an increase in costs associated with shipping digital orders due to promotional shipping offers, split shipments, freight surcharges due to peak capacity constraints, and additional long- zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our website within a short period of time, particularly during peak selling periods, we may experience system interruptions that make our website unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. Also, third- party delivery and direct ship vendors may be unable to deliver merchandise on a timely basis. This seasonality causes our operating results and cash needs to vary considerably from quarter to quarter. Additionally, any decrease in sales or profitability during the second half of the fiscal year could have a disproportionately adverse effect on our results of operations. The reputation and brand image of Kohl's and the brands and products we sell could be damaged. We believe the Kohl's brand name and many of our private brand names are powerful sales and marketing tools. We devote significant resources to develop, promote, and protect private brands that generate national recognition. In some cases, the private brands or the marketing of such brands are tied to or affiliated with well- known individuals. We also associate the Kohl's brand with third- party national brands that we sell in our store and through our partnerships with companies in pursuit of strategic initiatives. Further, we focus on ESG as a component of our strategy, and we have and may at times continue to engage in voluntary initiatives (such as voluntary disclosures, certifications, or goals, among others) to improve the ESG profile of our company and / or products. For example, we publish an annual report to share information with our stakeholders, including partners, shareholders, customers, and associates, regarding our ESG progress. These disclosures reflect our goals and other expectations and assumptions, which are necessarily uncertain and may not be realized. Such initiatives may be costly, even if realized, may not have the desired effect, and actions or statements that we may take based on expectations, assumptions, or third- party information that we currently believe to be reasonable may subsequently be determined to be erroneous or be subject to misinterpretation. At the same time, investor and other stakeholder expectations, and voluntary and regulatory ESG disclosure standards and policies, continue to evolve and are not uniform. We may be subject to investor or regulator engagement and / or litigation on our ESG initiatives and disclosures, even if such initiatives are currently voluntary. We also note that there are divergent views regarding ESG principles are emerging in the U. S., and in particular, in U. S. state- level regulation and enforcement efforts and among certain activist stakeholders. To the extent ESG matters negatively impact our brand and reputation, they may also impede our ability to compete as effectively to attract and retain employees or customers, which may adversely impact our operations, business, financial condition, results of operations, cash flow and prospects. Damage to the reputations (whether or not justified) of the Kohl's brand, our private brand names, or any affiliated individuals or companies with which we have partnered, could arise from product failures; concerns about human rights, working conditions, and other labor rights and conditions associated with our own operations or where merchandise is produced; perceptions of our diversity, equity, and inclusion and belonging efforts; perceptions regarding our position or lack of position on ESG, public policy, geopolitical and similar matters; perceptions of our pricing and return policies; litigation; vendor violations of our Terms of Engagement; perceptions of the national vendors and / or other third parties with which we partner; failure, or perceived failure, to realize our ESG goals on a timely basis or at all; the impact of, and perception associated with, executing and / or realizing our ESG and other social efforts, whether positive or negative; perceptions of our management of ESG risks and opportunities; our performance on various ESG ratings; failure to meet evolving investor and other stakeholder expectations with respect to ESG matters; or various other forms of adverse publicity, especially in social media outlets. The use of online media by us, our influencer network, and our consumers and other stakeholders has increased the risk that our reputation and brand could be damaged, as the dissemination of information via online media is immediate and damage could arise quickly without affording us an opportunity for redress or correction. This type of reputational damage may result in deterioration in our relationships with stakeholders and / or a reduction in sales, operating results, and shareholder value. There may be concerns about the safety of products that we sell.

If our merchandise offerings do not meet applicable safety standards or our customers' expectations regarding safety, we could experience lost sales, experience increased costs, and / or be exposed to legal and reputational risk. Events that give rise to actual, potential, or perceived product safety concerns could expose us to government enforcement action and / or private litigation. Reputational damage caused by real or perceived product safety concerns could have a negative impact on our sales and operating results. We may be unable to adequately maintain and / or update our information systems. The efficient operation of our business is dependent on our information systems. In particular, we rely on our information systems to effectively manage sales, distribution, and merchandise planning and allocation functions. We also generate sales through the operations of our Kohls.com website. We frequently make investments that will help maintain and update our existing information systems. We also depend on third parties as it relates to our information systems. The potential problems and interruptions associated with implementing technology initiatives, the failure of our information systems to perform as designed, or the failure to successfully partner with our third party service providers, such as our cloud platform providers, could disrupt our business and harm our sales and profitability. Our information technology projects may not yield their intended results. We regularly have internal information technology projects in process. Although the technology is intended to increase productivity and operating efficiencies, these projects may not yield their intended results or may deliver an adverse user or customer experience. We may incur significant costs in connection with the implementation, ongoing use, or discontinuation of technology projects, or fail to successfully implement these technology initiatives, or achieve the anticipated efficiencies from such projects, any of which could adversely affect our operations, liquidity, and financial condition. In addition, we may not be able to adapt or adapt quickly enough to technological change, including that brought about by the use of artificial intelligence. If our competitors are more successful in adapting to such changes or otherwise incorporating such changes into their business or operations, this could have a material adverse impact on our business and results of operations. Weather conditions and natural disasters could adversely affect consumer shopping patterns and disrupt our operations. Our business is apparel, footwear, accessories, beauty, and home products. Both our business and our supply chain are subject to weather conditions. As a result,..... Changes in credit card operations and payment-related risks, including in our credit card operations, that could adversely affect our sales, revenues, and / or profitability, increase our operating costs, expose us to fraud or theft, and subject us to potential liability. We accept payments using a variety of methods, including our private label and co-branded Kohl's credit card, credit and debit cards, gift cards, mobile payments, cash, and checks. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult, costly, or uncertain. Our credit card operations facilitate merchandise sales and generate additional revenue from fees related to extending credit. The private label and co-branded Kohl's credit card accounts are owned by an unrelated third-party, but we share in the net risk-adjusted revenue of the portfolio, which is defined as the sum of finance charges, late fees, and other revenue less write-offs of uncollectible accounts. Changes in funding costs related to interest rate fluctuations are shared similar to the revenue when interest rates exceed defined amounts. Though management currently believes that increases in funding costs will be largely offset by increases in finance charge revenue, increases in funding costs could adversely impact the profitability of this program-our credit card operations. On **Additionally, on** March 5, 2024, the Consumer Financial Protection Bureau ("CFPB") **finalized-released a final rule lowering reducing** the safe harbor dollar amount **for** credit card companies can charge for late fees for a missed payment and **eliminating the automatic annual inflation adjustment to such safe harbor dollar amount**. The rule **is subject to legal challenge** reduces the typical amount of late fees that can be charged, which **and the United States District Court for the Northern District of Texas granted a preliminary injunction, staying implementation of the rule, on May 10, 2024. As of February 1, 2025, this injunction remains in effect. The ultimate outcome of this legal challenge, along with the rule's effectiveness and implementation under the new presidential administration, remains uncertain. If implemented, this rule** could **adversely** have a negative impact on Kohl's credit card revenues, particularly if Kohl's steps to mitigate the impact of such rule are not successful. **The payment and payment process methods that we accept subject us to potential fraud and theft by threat actors, including increased credit fraud risks associated with self check out, self pick up, and digital payment methods which could negatively impact our revenue and profitability. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by third parties or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs, adversely affecting our business and operating results.** Changes in credit card use and applications, payment patterns, credit fraud, and default rates may also result from a variety of economic, legal, social, and other factors that we cannot control or predict with certainty. Changes that adversely impact our ability to extend credit and collect payments could negatively affect our results. We also accept payment from customers in a variety of ways, such as cash, checks, debit cards, gift cards, mobile payments, as well as other forms, which subject us to rules, regulations, contractual obligations, and other compliance requirements such as those related to payment network rules and operating guidelines, as well as potential fraud, which may have an adverse impact on our operating results. We may be unable to attract, develop, and retain quality associates while controlling costs, which could adversely affect our operating results. Our performance is dependent on attracting and retaining a large number of quality associates, including our senior management team and other key associates, **and successfully executing organizational changes, such as leadership transitions.** While we have succession plans for our senior management team, they may not be adequate to replace members of our senior management, including our Chief Executive Officer, or may not be successfully executed. Many associates are in entry-level or part-time positions with historically high rates of turnover. Many of our strategic initiatives require that we hire and / or develop associates with appropriate experience.

Our staffing needs are especially high during the holiday season. Competition for these associates is intense. We cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods. Our ability to meet our labor needs while controlling costs is subject to external factors such as government benefits, unemployment levels and labor participation rates, prevailing wage rates, minimum wage legislation, actions by our competitors in compensation levels, perceptions of our employee experience, potential labor organizing efforts, and changing demographics. Competitive and regulatory pressures have already significantly increased our labor costs. Further changes that adversely impact our ability to attract and retain quality associates **or manage leadership transitions** could adversely affect our performance, **ability to effectively execute our strategy, our customer experience,** and / or profitability. In addition, changes in federal and state laws relating to employee benefits, including, but not limited to, sick time, paid time off, leave of absence, minimum wage, wage-and- hour, overtime, meal- and- break time, and joint / co- employment could cause us to incur additional costs, which could negatively impact our profitability **factors relating to** foreign trade are beyond our control and have impacted or could continue to adversely impact our performance and cause us to pay more to obtain inventory or result in having the wrong inventory at the wrong time. In addition, certain laws and regulations impose import restrictions for goods, which may induce greater supply chain compliance costs and may result in delays to us or adversely impact our inventory. Where we are the importer of record, we may be subject to additional regulatory and other requirements ~~, resulting in additional costs to us~~. Increases in the price of merchandise, raw materials, fuel, and labor, or their reduced availability, increase our cost of merchandise sold. The price and availability of raw materials may fluctuate substantially, depending on a variety of factors, including demand, weather, supply conditions, transportation **costs, energy prices**. Capital Risks We may be unable to raise additional capital or maintain bank credit on favorable terms, which could adversely affect our business and financial condition. We have historically relied on the public debt markets to raise capital to partially fund our operations and growth. We have also historically maintained lines of credit with financial institutions. In January 2023, we upsized and replaced our unsecured credit facility with a \$ 1.5 billion senior secured, asset based revolving credit facility. Changes in the credit and capital markets, including market disruptions, limited liquidity, and interest rate fluctuations may increase the cost of financing or restrict our access to these potential sources of future liquidity. Our continued access to these liquidity sources on favorable terms depends on multiple factors, including our operating performance and debt ratings. During ~~2022-2024~~, ~~our credit ratings were reduced below investment grade, which resulted in an increase in the interest rate on a portion of our long- term debt. During the first quarter of 2023~~, S & P downgraded our senior unsecured credit rating from BB to BB - and Moody's downgraded our rating from ~~Ba2 to Ba3~~ **to B1**. These downgrades have caused our cost of borrowing to increase, and further downgrades would cause our cost of borrowing to further increase. Declines in our credit ratings may also adversely affect our ability to access the debt markets and the terms and our cost of funds for new debt issuances. If our credit ratings were to be further downgraded, or general market conditions were to ascribe higher risk to our credit rating levels, our industry, or our Company, our access to capital and the cost of debt financing may be negatively impacted. Additionally, if unfavorable capital market conditions exist if and when we were to seek additional financing, we may not be able to raise sufficient capital on favorable terms and on a timely basis (if at all). The terms of current and future debt agreements could restrict our business operations or cause future financing to be unavailable due to our covenant restrictions then in effect. Also, if we are unable to comply with the covenants under our revolving credit facility, the lenders under that agreement will have the right to terminate their commitments thereunder and declare the outstanding loans thereunder to be immediately due and payable. A default under our revolving credit facility could trigger a cross- default, acceleration, or other consequences under other indebtedness or financial instruments to which we are a party. If our access to capital ~~was were~~ to become significantly constrained or our cost of capital ~~was were~~ to increase significantly our financial condition, results of operations, and cash flows could be adversely affected. Our capital allocation could be inefficient or ineffective. Our goal is to invest capital to maximize our overall long- term returns. This includes spending on inventory, capital projects and expenses, managing debt levels, and periodically returning value to our shareholders through **dividends and, longer term,** share repurchases ~~and dividends~~. To a large degree, capital efficiency reflects how well we manage our other key risks. The actions taken to address other specific risks may affect how well we manage the more general risk of capital efficiency. If we do not properly allocate our capital to maximize returns, we may fail to produce optimal financial results, and we may experience a reduction in shareholder value. ~~Legal and Regulatory Risks Regulatory and legal matters could adversely affect our business operations and change financial performance. Various aspects of our operations are subject to federal, state, or local laws, rules, and regulations, including consumer regulations, any of which may change from time to time. The costs and other effects of new or changed legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent such requirements increase prices of goods and services, reduce the availability of raw materials, or further restrict our ability to extend credit to our customers. We continually monitor the state and federal legal and regulatory environments for developments that may impact us. Failure to detect changes and comply with such laws and regulations may result in an erosion of our reputation, disruption of business, and / or loss of associate morale. Additionally, we are regularly involved in various litigation matters that arise out of the conduct of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance. Our efforts to protect the privacy and security of sensitive or confidential customer, associate, or company information could be unsuccessful, which could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations, and harm our business. As part of our normal course of business, we collect, retain, process, and transmit sensitive and confidential customer, associate, and company information. We also engage third- party vendors that provide technology, systems, and services to facilitate our collection, retention, processing, and transmission of this information. It is possible that our facilities and systems and those of our third- party vendors are vulnerable to cybersecurity threats, security breaches, system failures, acts of vandalism, fraud, misappropriation, malware, ransomware, and other malicious or harmful code, misplaced or lost data, programming and / or human errors, insider threats, or other similar events. The ever- evolving and increasingly~~

sophisticated methods of cyber-attack may be difficult or impossible to anticipate and / or detect. Any data security incident involving the breach, misappropriation, loss, or other unauthorized disclosure of sensitive and / or confidential information, whether by us or our vendors, could disrupt our operations, damage our reputation and customers' willingness to shop in our stores or on our website, violate applicable laws, regulations, orders and agreements, and subject us to additional costs and liabilities which could be material. In addition, the regulatory environment related to data privacy and cybersecurity is constantly changing, with new and increasingly demanding requirements applicable to our business. Maintaining our compliance with those requirements, including recently enacted state consumer privacy laws, may increase our compliance costs, require changes to our business practices, limit our ability to use and collect data, impact our customers' shopping experience, reduce our business efficiency, and subject us to additional regulatory scrutiny or data breach litigation.