The Henry Fund
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Target Corp. (TGT)

November 14, 2024

Consumer Staples – Discount Stores

Stock Rating **HOLD**

Investment Thesis

We recommend a **HOLD** rating for Target Corporation with a target price of $166 (an upside of 8.2%). While Target remains a well-loved retailer, supported by its focus on discretionary categories and store experience, we believe that e-commerce challenges and limited pricing power compared to Amazon and Walmart will constrain its long-term growth potential.

Drivers of Thesis

- **Omnichannel Growth and Store Remodels:** Target's investments in store remodels and same-day fulfillment are set to improve efficiency (contributing 100 bps to gross margin by FY26E) and enhance the customer experience. By modernizing stores and expanding pickup and delivery options (along with its growing digital presence), Target has better positioned itself to drive incremental growth.
- **Continued Brand Loyalty:** Target's iconic brand continues to attract consumers by delivering a more satisfying shopping experience compared to other discount retailers. This brand strength, coupled with its focus on trendy-curated products, helps maintain recurring foot traffic.
- **Moderate Comp Sales & Margin Expansion:** We expect comp sales growth to return to the 3%-5% range by FY26E, and EBIT margins to improve to 6.1% by FY26E as cost savings from store optimizations, improved supply chain operations, and shrink reduction take effect.

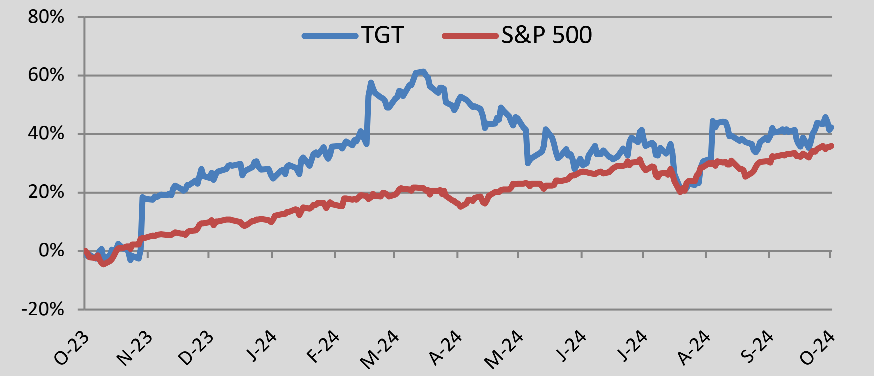
Risks to Thesis

- **Reliance on Discretionary Sales:** Target's heavy reliance on discretionary categories such as apparel, home goods, and electronics (55% of total sales) leaves it more vulnerable to economic downturns.
- **E-commerce Growth Challenges:** While Target has made strides in e-commerce, we see limited long-term growth potential in this space compared to peers (digital sales mix shifting from 18.3% to 20% in FY28E).
- **Limited Pricing Power:** Target's premium pricing compared to competitors like Walmart and Amazon may hinder its ability to attract price-sensitive shoppers, particularly as consumers become more value-focused.

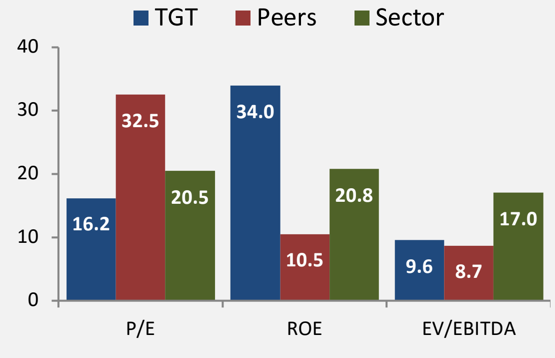
Earnings Estimates

Year	2022	2023	2024	2025E	2026E	2027E
EPS	$ 14.23	$ 6.02	$ 8.96	$ 9.57	$ 10.52	$ 11.55
HF est.				$ 9.51	$ 10.42	$ 11.11
Growth	36.35%	-136.38%	32.84%	5.79%	8.73%	6.19%

TTM Performance



Target Price	$150 - 170
Henry Fund DCF	$166
Henry Fund DDM	$150
Relative Multiple	$176
Price Data	
Current Price	$153
52wk Range	$150 - 181
Consensus 1yr Target	$177
Key Statistics	
Market Cap (B)	$70.7
Shares Outstanding (M)	462.5
Institutional Ownership	82.9%
Beta	1.2
Dividend Yield	2.9%
Est. 5yr Growth	8.2%
Debt/Equity	1.3
Price/Earnings (TTM)	16.2
Price/Earnings (FY1)	15.0
Price/Sales (TTM)	0.7
Price/Book (mrq)	5.0
Profitability	
Operating Margin	6.6%
Profit Margin	4.2%
Return on Assets (TTM)	7.2%
Return on Equity (TTM)	34.0%



Company Description

Incorporated in 1902 and headquartered in Minneapolis, Target Corporation is one of the largest retailers in the U.S. Target operates 1,956 locations across all 50 states, encompassing 245.9 million square feet of floor space. Target caters primarily to middle and upper-income consumers, offering a broad assortment of general merchandise including fashion apparel, electronics, home furnishings, and household essentials.

Important disclosures appear on the last page of this report.

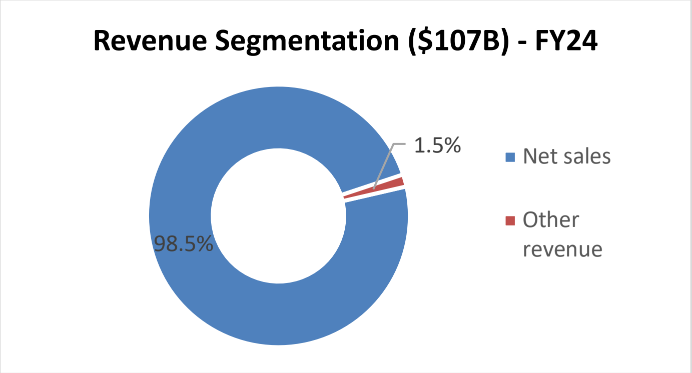
COMPANY DESCRIPTION

Target is one of the largest retailers in the U.S., operating 1,956 stores and generating $107.4B in annual revenue (FY24). Target holds a position as a retail leader despite the fragmented and highly competitive retail landscape. The company's success is due to its focus on delivering a high-quality shopping experience.

Source: Yahoo Finance

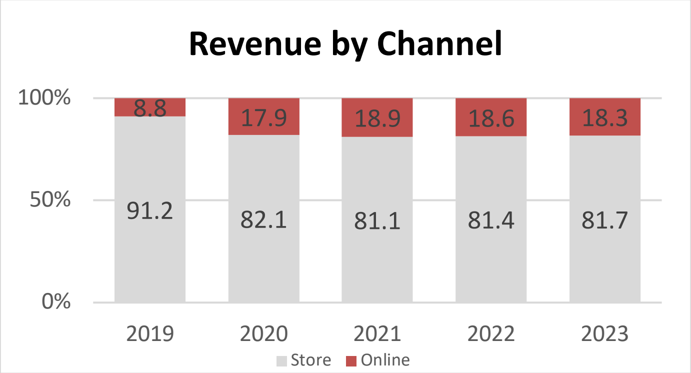
Target locations offer a wide range of products, from trendy apparel to household essentials, making the company a convenient one-stop-shop for consumers. Target's large store footprint along with its omnichannel capabilities, allows customers to utilize both physical stores and digital platforms. While smaller than Walmart, Target's emphasis on an upscale yet affordable shopping experience has helped provided some differentiation in a crowded market.

Revenue Overview



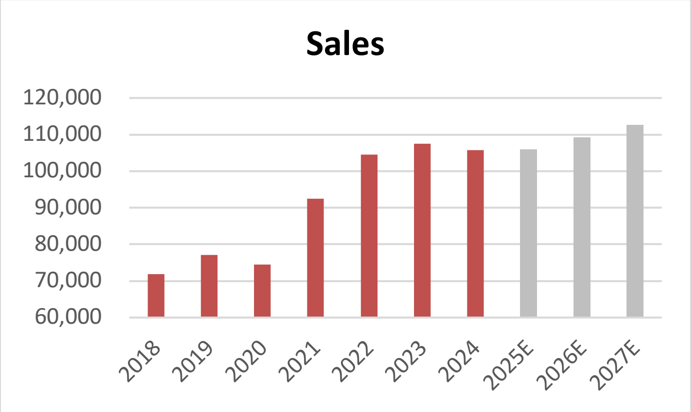
Source: TGT – 10k³

While Target's stores remain the primary revenue driver, accounting for 81.7% of net sales in 2024, the company has aggressively invested in expanding its digital capabilities. Target's online sales (representing 18.3% of total sales) have grown significantly over the past few years, particularly driven by the pandemic-induced shift toward e-commerce.



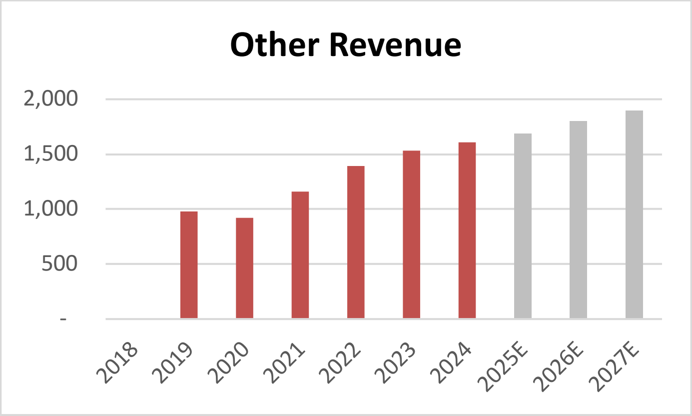
Source: TGT – 10k³

The company's "stores as hubs" model, where over 97% of online orders are fulfilled through physical stores, helps Target's ability to provide faster delivery times and reduce shipping costs. However, despite these efforts, Target still lags behind larger rivals like Walmart in e-commerce penetration, as Walmart dominates online grocery with 37% market share.



Source: TGT – 10k³

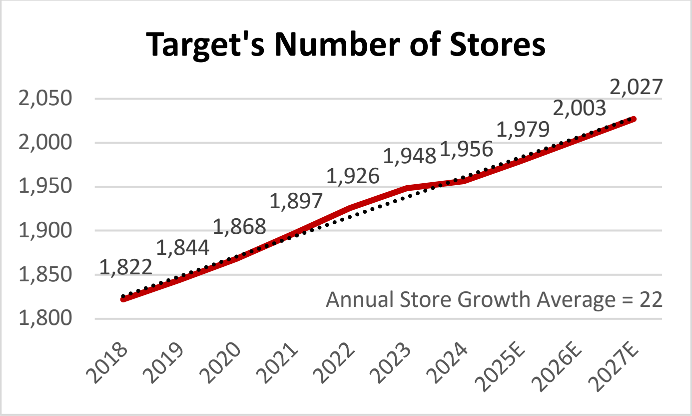
Target's sales are driven by a diverse mix of product categories, with key segments including beauty & household essentials, food & beverage, home furnishings & decor, and apparel & accessories. In 2024, beauty & household essentials led the way, contributing 30% to total sales, while food & beverage accounted for 22%. To drive growth beyond same-store sales, Target's management has announced plans to open over 20 new stores in the coming year with a focus on larger format stores.



Source: TGT – 10k³

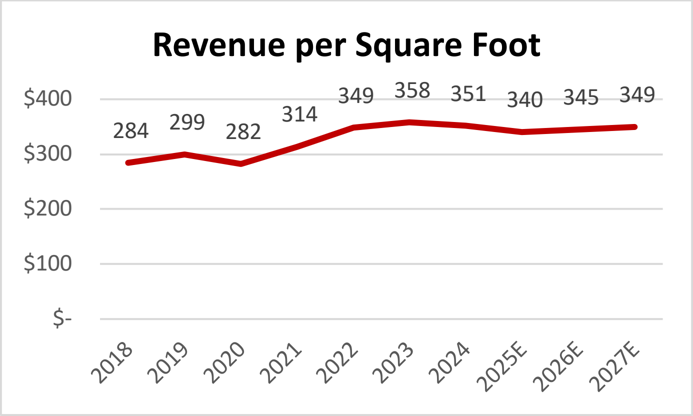
Target's "other revenue" segment includes profit-sharing from its credit card partnership, gift card program revenue, and advertising income through its Roundel platform, with the credit card profit-sharing contributing $667 million in 2023 and Roundel seeing a 20% increase in revenue. According to CFO Michael Fiddelke, Target anticipates significant growth in its other revenue sources over the next decade.

Revenue per Square Foot



Source: TGT – 10k³

After a year of few new store openings, Target is reigniting its store expansion strategy by planning to open over 300 new locations over the next decade (moving away from its recent focus on smaller-format sites). CEO Brian Cornell highlighted that Target sees significant growth potential in larger stores with increased inventory storage to support omnichannel activity. These new full-size stores are expected to drive approximately $15 billion in incremental annual sales.

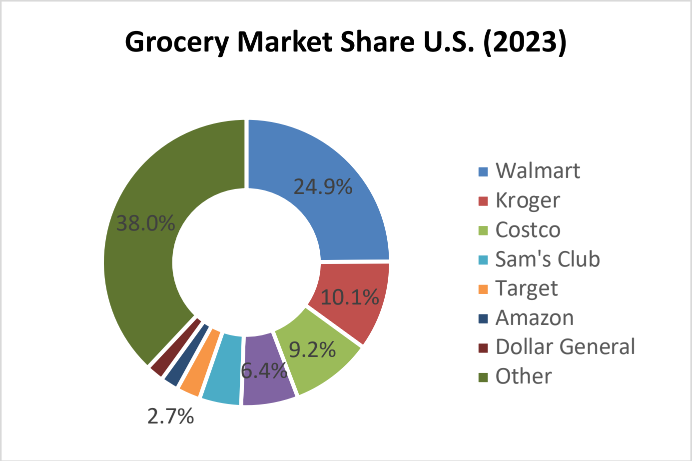


Source: TGT – 10k³

Target's revenue per square foot is notably affected by its reliance on discretionary categories, such as apparel, home goods, and electronics. Target continues to face challenges in its discretionary categories with the company reported further declines in average order values, particularly in electronics, toys, and apparel. Kitchen appliances and TVs saw a continued reduction in average order value (down nearly 30% year-over-year) while spending on essentials dropped by around 20%. Additionally, Target's grocery sales are limited compared to its larger peers. This lack of a substantial grocery segment puts Target at a disadvantage, as grocery items typically drive consistent foot traffic and provide a more stable revenue stream even during periods of economic uncertainty. As discretionary spending continues to slow, Target's reliance on these higher-margin but volatile categories further pressure its revenue per square foot.

Grocery Market

Target holds a smaller share of the U.S. grocery market compared to major competitors like Walmart and Kroger, capturing 2.7% of the market in 2023. Despite its sizeable presence, Target remains vulnerable to changing consumer preferences and competition (particularly in the online space). The retailer's grocery portfolio is responsible for driving recurring traffic but lacks the scale and differentiation of its larger peers. With food, beverage, beauty, and household essentials categories contributing 46% of Target's sales. These offerings are dwarfed by competitors like Walmart and Kroger, with Target's grocery sales in 2023 amounting to one-fifth of Walmart's and two-fifths of Kroger's.

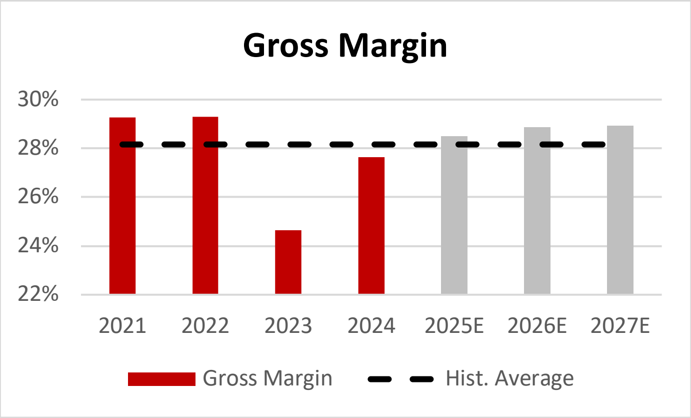


Source: Statista

While Target has expanded its private-label brands (such as Good & Gather) the lack of a clear value proposition (whether in price, quality, or product selection) makes it vulnerable to shifts in consumer behavior. Additionally, Target's grocery selection is limited compared to larger players, and while the company has leaned into its omnichannel capabilities, including same-day delivery (through Shipt) and curbside pickup, its position in the discount retail space remains relatively unclear.

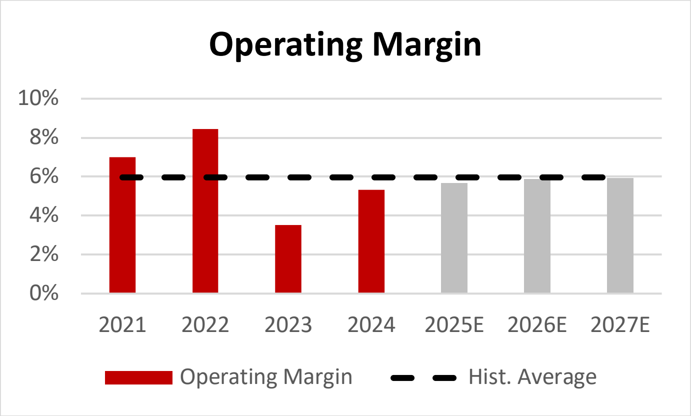
Cost Structure Overview

Target's cost of sales represents a significant portion of its overall expenses (72% of total revenue), encompassing the direct costs associated with the goods it sells (including procurement, transportation, and warehousing). Target's gross margin has been under considerable pressure in recent years due to a challenging macroeconomic environment, rising input costs, and significant competition. In 2023, gross margin dropped sharply to 23.6%, well below the historical average of 28%. This sharp drop was primarily driven by excess inventory, markdowns, and higher freight and supply chain costs. However, by 2024, gross margin rebounded to 25.3% as Target implemented cost-saving initiatives and improved inventory management. Looking ahead, Target's management remains optimistic, projecting gross margin recovery to over 28% by 2026, a target we view as achievable. This expected improvement is based on easing cost pressures and improved efficiencies from investments in digital fulfillment, such as the rollout of "sortation" centers and its growing advertising business.



Source: TGT – 10k[3]

Despite these positive developments, Target's margins remain vulnerable to its reliance on discretionary categories and competitive pressures from larger rivals like Walmart and Amazon. Additionally, while Target is investing in grocery to drive repeat traffic, the margins in this segment are significantly lower, typically in the low single digits (1.0%-3.0%). Larger competitors are better positioned to leverage supply chain efficiencies which limits Target's potential for long-term margin expansion.



Source: TGT – 10k[3]

Target's operating expenses have steadily increased in recent years, largely due to ongoing investments in digital fulfillment, supply chain infrastructure, and store renovations. In 2023, operating expenses rose further as the company fought with higher labor costs and inflationary pressures across its product lines. By 2024, operating expenses reached $23B, driven by continued investment in distribution centers and logistics to improve final-mile delivery. We expect Target's operating margin to gradually improve from the low point of 3.5% posted in 2022 (a year marked by heavy discounting due to excess inventory across the retail industry). In 2023, the operating margin recovered to 5.3%, and we forecast it will further improve to 6% (FY28E) as Target's digital fulfillment investments scale and contribute to cost efficiencies.

Additional Company Analysis

Shipt and Logistics

Shipt, which Target acquired for $550 million in 2017, has become a key asset in the company's omnichannel strategy. Allowing Target to offer same-day delivery services that improve Target's ability to compete. Shipt enables Target to fulfill the growing consumer demand for convenience by providing same-day delivery on a wide array of products directly from its stores. The integration of Shipt into Target's operations strengthens its fulfillment capabilities by allowing the company to meet orders more quickly and efficiently (increasing both customer satisfaction and loyalty). Shipt's difference compared to other alternatives is that it operates independently of Target, allowing customers to access products from multiple stores (including CVS, Office Depot, and Bed Bath & Beyond) through a single platform.

Target Circle

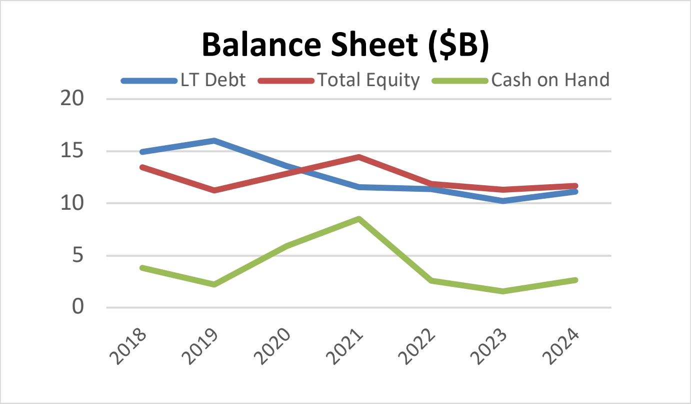
Launched in 2019, Target Circle (a free membership), has successfully attracted over 100 million members as of 2024. The membership offers benefits such as 1% back on purchases, personalized deals, and birthday rewards. Later in 2023, Target introduced Target Circle 360 (a paid version of the program priced at $99 per year) aimed at providing more premium services. Target Circle 360 offers unlimited same-day delivery on orders over $35 to multiple addresses, access to same-day delivery from dozens of retailers through the Shipt Marketplace, extended no-rush return windows with an extra 30 days, and free two-day shipping. While the program helps Target gather valuable consumer data, its benefits are relatively limited compared to those offered by competitors like Amazon Prime and Walmart+. As a result, we do not consider Target Circle a significant driver of customer retention or revenue generation, as it lacks many of the perks that encourage strong loyalty.

Consumer Breakdown

Target's customer base primarily consists of middle and upper income households, with the average income of Target shoppers being roughly $79K (which is significantly higher than Walmart's at $62K and Dollar General/Dollar Tree at $45K). Target appeals to more affluent, suburban consumers who are drawn to its combination of trendy and affordable product offerings, particularly in discretionary categories like apparel, home furnishings, and beauty. These shoppers value Target's curated, trend-forward merchandise, which differentiates Target from peers that focus more heavily on price.

Debt Maturity Analysis

Target's debt strategy has also seen an increase in leverage over recent years, although it continues to maintain a relatively strong balance sheet. The company's debt-to-capital ratio rose to 62.4% in 2023, compared to 55.6% in 2022, highlighting a growing reliance on debt financing to support investments in digital infrastructure, supply chain improvements, and store remodels.



Source: TGT – 10k[3]

The rise in Target's total debt raises some concerns about leverage, but it should be viewed in the context of Target's strong cash flow generation and ability to service its debt. Target's EBITDA-to-interest expense ratio, at 21.2, highlights that the company comfortably generates enough operating income to cover its interest expenses several times over. The coverage ratio coupled with the strong balance sheet indicates that the company is not at immediate risk of financial distress despite the recent uptick in leverage.

Five-Year Debt Maturity Schedule

Fiscal Year	Payment ($mil)
2025	1,000
2026	1,500
2027	2,000
2028	97
2029	81
Thereafter	9,574
Total	14,252

Source: TGT – 10k[3]

ESG Analysis

ESG Peer Comparison

Company	Risk Score	Risk Rating
COST	25.9	Medium
WMT	23.3	Medium
TGT	**17.1**	**Low**
KR	23.2	Medium
DG	21.1	Medium
DLTR	18.8	Low

Source: Sustainalytics [18]

Target has made strides in ESG initiatives, with a commitment to use 100% renewable electricity for its operations by 2030 and achieve net-zero greenhouse gas emissions by 2040. The company also aims to divert 90% of operational waste from landfills, and has implemented several circular economy programs, such as the Target Take Back program, which promotes recycling and reusability of products. Similar to many of its peers Target's ESG weakness is often linked to its labor practices, particularly around wages and working conditions. While these labor issues are a notable, they are unlikely to affect Target's business in the near term as this is an industry wide issue.

RECENT DEVELOPMENTS

Recent Earnings Announcement

In Target's fiscal second-quarter earnings for 2024 (reported August 21, 2024), the company reported EPS of $2.57, surpassing the prior year's EPS of $1.80, marking a 40% year-over-year increase. This outperformance was driven by comparable sales growth of 2.0%, which came in at the high end of the company's expectations. Traffic grew by 3%, supported by strength across all six core merchandising categories, while digital comparable sales increased by 8.7%, with same-day services (including Target Circle 360 same-day delivery) experiencing double-digit growth. Apparel also posted a meaningful recovery, with comparable sales growing by more than 3% during the quarter. Target's operating performance also improved, with the operating income margin rising to 6.4% (up 160 basis points from the prior year) primarily due to cost improvements and a more favorable category mix. Gross margin expanded to 28.9%, compared to 27.0% in 2023, reflecting effective merchandising activities and cost controls, despite higher digital fulfillment and supply chain costs. Looking ahead, Target's guidance for the third quarter projects comparable sales growth of 0 to 2%, with EPS expected to range between $2.10 and $2.40. For the full year, the company raised its EPS guidance to $9.00 to $9.70, up from a previous range of $8.60 to $9.60, reflecting stronger-than-expected profit performance in the first half of the year. Our forecast for Target's full-year EPS stands at $9.51, aligning with the higher end of the company's updated guidance.

2021-2023 Inflation Surge Impact

The recent period of heightened inflation had a mixed impact on Target, influencing both its cost structure and consumer behavior. On the cost side, rising prices for labor, transportation, and raw materials put pressure on Target's margins. Inflation drove up the cost of inputs and supply chain expenses which led to tighter margins in some areas. However, unlike larger grocers, Target's smaller scale and focus on higher-margin discretionary products made it more vulnerable to cost pressures. On the consumer side, inflation caused a shift in shopping habits, as more price-conscious customers prioritized essentials over discretionary spending. This trend hurt Target more than its competitors, particularly in categories like electronics, toys, and home furnishings, which experienced sharper declines in sales.

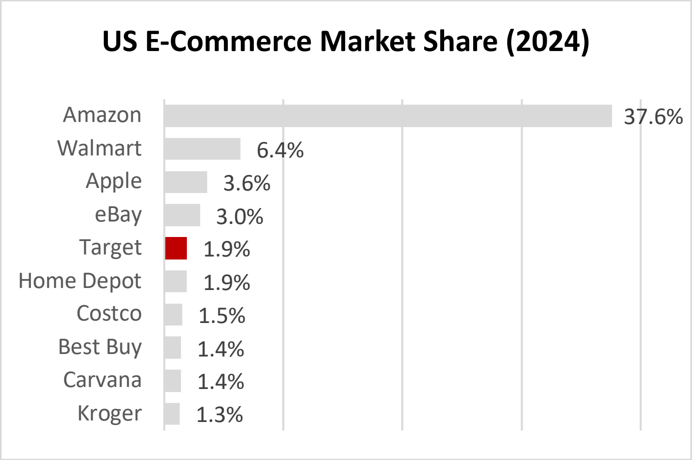
Target's challenge in this environment is compounded by its lack of scale and differentiation compared to larger competitors like Walmart and Amazon, which limits its ability to capture significant market share across its product categories. Target's product offerings struggle to provide a clear value proposition that resonates with a broad customer base. Despite its focus on offering a superior shopping experience, Target's discretionary categories have underperformed compared to peers (particularly recently due to economic uncertainty). The company's reliance on these higher-margin, trend-focused segments has limited its ability to deliver sustained growth, as it lacks the pricing power and product differentiation to compete effectively with more price-competitive retailers. This lack of a strong, consistent value proposition makes it difficult for Target to compete, particularly in an environment where consumer spending remains under pressure.[3]

INDUSTRY TRENDS

Looking ahead, the retail industry is expected to experience steady growth driven by the expansion of e-commerce and investments in omnichannel. The global retail market is projected to grow at a CAGR of around 5-6% through 2027, with the e-commerce portion expected to grow at a significantly higher rate of 12-15% CAGR. This growth is largely fueled by the increasing shift toward digital shopping, with more consumers opting for the convenience of online purchases. Traditional retailers are positioning themselves to take advantage of these developments by investing in omnichannel infrastructure, offering consumers a seamless shopping experience across online and in-store. Grocery and essential goods remain key growth drivers for the retail industry (especially in times of economic uncertainty) as consumers will prioritize necessities over discretionary spending. The grocery retail sector is expected to grow at a CAGR of 4-5%, with a focus on delivery services and private-label products.

E-Commerce and Omnichannel Retail

Retailers are combining online shopping with in-store experiences to enhance customer convenience in response to increased demand. This is apparent in the increase of click-and-collect services, curbside pickup, and same-day delivery options.



Source: Statista

Target has significantly increased its online sales since the onset of the pandemic, with 18.3% of total revenues in FY24 generated from digital sales, compared to just 8.8% in FY20. However, digital sales penetration has softened slightly after peaking at 18.9% in FY22. As part of its strategy to enhance efficiency, Target plans to operate 15 sortation centers by CY26E. In markets with a sortation center, packages are collected daily from 30-40 local stores and sent to the center, where they are sorted, batched, and routed for delivery via either a third-party carrier or Shipt. Despite these efforts, we have concerns about Target's ability to thrive long-term in an increasingly digital retail landscape. Walmart and Amazon exert disinflationary pressure across many discretionary categories, such as apparel and electronics, which are particularly vulnerable to digital competition due to the ease of comparing prices online. We believe that Target’s recent digital sales growth, while impressive, is largely reactive to industry trends rather than a result of competitive advantage.

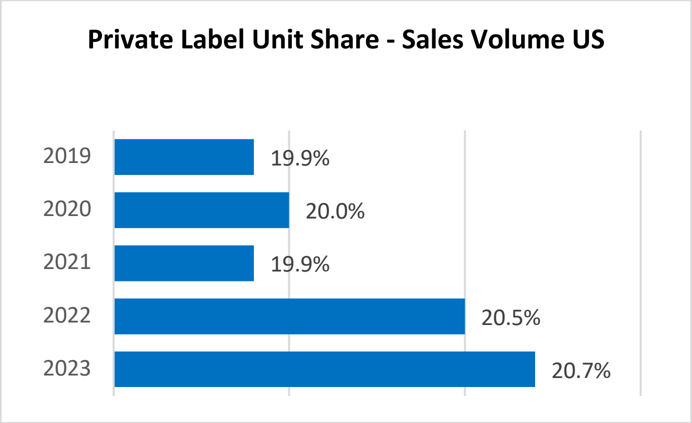
Although Target’s digital sales have nearly quadrupled since 2018, reaching around $20B (18% of total sales), we believe the company is at a structural disadvantage in a fully digital marketplace. Target’s largest categories like apparel, home furnishings, and consumer electronics are among the most vulnerable to online competition. According to the National Retail Federation, online sales account for 30%-40% of sales in these categories, compared to only 12% for groceries (which is more insulated from e-commerce). Target’s reliance on its grocery business, which we view as largely undifferentiated, serves as a key driver of recurring foot traffic to its stores, but this category lacks the pricing and product distinction needed to compete with larger competitors. To highlight this, a 2024 study by the AARP compared prices of 30 popular grocery items across retailers found that Target’s average grocery basket is 23.6% more expensive than Walmart’s.

Source: What Chain Has the Cheapest Groceries - AARP

Furthermore, we believe higher-income consumers, who are increasingly shopping across multiple channels and comparing prices, may be less loyal to Target in the long run given its lack of a compelling value proposition. The continued rise of e-commerce combined with the ease of online price comparisons, presents a long-term challenge for Target's business model.

Private Label Brands

The trend of private labels and trade downs has become increasingly important in the retail industry as more consumers seek value alternatives amid economic uncertainty and inflation. In 2023, private label products accounted for 20.7% of grocery industry unit sales, an all-time high according to the Private Label Manufacturers Association. Store brands continued to gain ground on national brands, with private label sales reaching a record $236B, up nearly 5% year-over-year. This underscores the growing consumer preference for private label products as inflationary pressures heightened price sensitivity.



Source: Statista

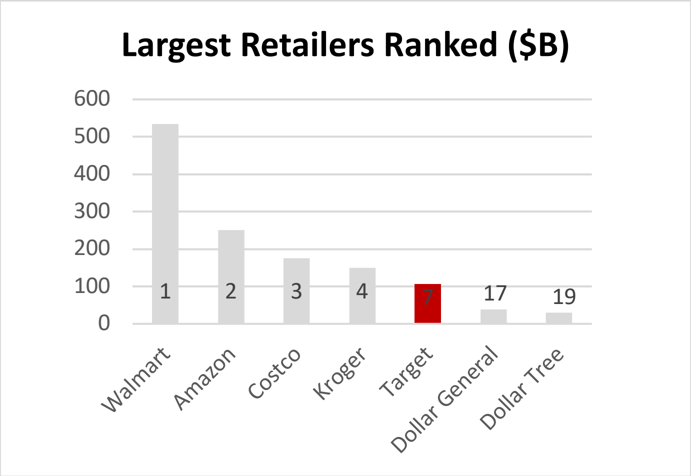
Retailers like Target have been expanding their private label offerings to capitalize on this trend. Target's private label brands have become important to its strategy; however, only 20% of Target shoppers report frequently purchasing private label brands (compared to 33% for Walmart). While Target's private labels offer competitive prices and contribute to higher margins, they lag behind Walmart in terms of consumer adoption. The trend of trading down (where consumers opt for lower-priced alternatives during times of economic pressure) has fueled private label growth as more shoppers switch to these products for both savings and perceived value. Even as inflation moderates, this shift is expected to persist, with 51% of consumers indicating they would continue purchasing private labels even if grocery prices decline.

Automation and Supply Chain Efficiency

Automation and supply chain optimization are important drivers in the retail industry's ongoing transformation. Retailers are expected to aggressively invest in these areas to maintain competitiveness. Target has been investing in these areas, an example being Target's rollout of sortation centers, which streamline the sorting and distribution process for online orders. These centers enable faster sorting and batching of products from local stores before they are routed for delivery. This system helps ensure that popular items are consistently available, reducing stock shortages and improving customer satisfaction. Additionally, Target's investments in AI-driven analytics have optimized its supply chain by improving last-mile delivery and reducing transportation costs.

MARKETS AND COMPETITION

The Consumer Staples - Retail Industry is led by key players like Amazon, Walmart, Target, Kroger, Costco, Dollar Tree, and Dollar General. These companies offer a broad range of products, including groceries, household items, personal care products, and everyday necessities.



Source: Statista

Our outlook for the retail space is positive, driven by consumers shopping closer to home and seeking value amidst inflation. The industry is evolving beyond traditional retail with growth in higher-margin services such as advertising, fulfillment, subscriptions, and data monetization. Cost pressures, particularly in transportation and freight are easing, although challenges in inflation, ongoing wage pressures, and weak discretionary sales remain. While store traffic is strong for consumable products like groceries and household items, consumers are buying fewer items per trip, suggesting the impact of higher prices. Additionally, discretionary categories continue to struggle. Retailers are increasingly relying on private-label brands and online platforms to drive margins, and we also expect discounts and promotions to increase in 2024 as costs ease.

Competition Forces and Industry Structure

- **Rivalries:** The retail industry is highly competitive and fragmented with firms competing around pricing, customer experience, and innovation. Retailers invest heavily in omnichannel capabilities like same-day delivery and curbside pickup to meet consumer expectations and find an edge.
- **Entry Barriers:** The retail sector presents significant entry barriers due to economies of scale, extensive logistics networks, and significant investments in infrastructure. Established retailers like Walmart and Amazon have developed massive distribution centers, proprietary technology for logistics, and omnichannel platforms.
- **Supplier/Customer Powers:** Major retailers wield substantial influence over suppliers due to their size and purchasing power, allowing them to secure favorable terms. However, customer preferences are pivotal in shaping the industry. With the rise of e-commerce and increased demand for personalized shopping experiences, retailers must adapt quickly to changing consumer behaviors (highlighted in the recent struggles of DLTR and DG).[9]

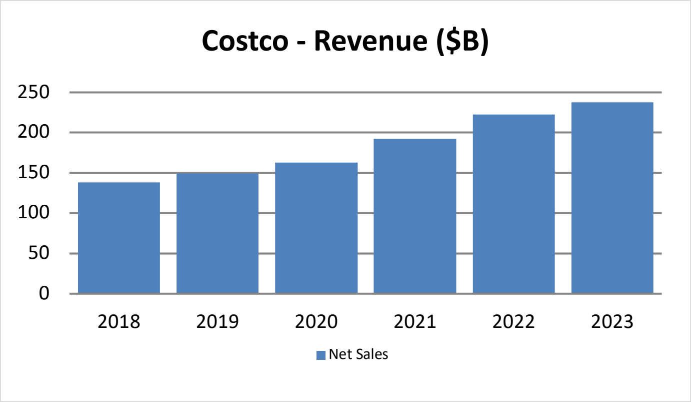
Peer Comparisons

Company	Store Count	Total Sq. Ft. (Millions)	Revenue per Sq. Ft.	Membership Cost (Annual)
WMT	10,600	1,050	$610	$98
AMZN	500	N/A	N/A	$139
COST	860	120	$1,450	$65
KR	2,700	180	$505	$59
TGT	**1,900**	**240**	**$350**	**$99**
DG	19,000	175	$250	N/A
DLTR	16,000	130	$215	N/A

Source: Company 10k's

Costco Wholesaler Corp. (COST): 41.99% YTD

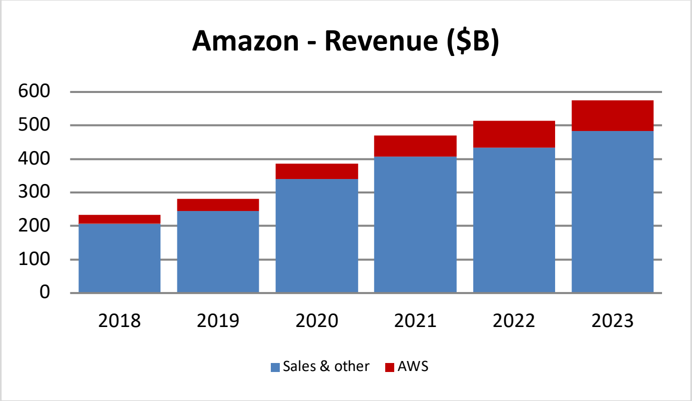
Costco operates membership-based warehouses, focusing on bulk sales and providing value to its members through low prices. Known for its private-label brand Kirkland Signature, Costco utilizes its bulk purchasing power to negotiate favorable terms with suppliers (which helps maintain competitive pricing). The company's strategy is centered around driving membership renewal and growth, with membership fees contributing significantly to its bottom line. Costco typically has higher operating margins than traditional retailers because of its membership-based revenue system, minimal operating costs, and effective store layouts. In terms of growth, Costco has steadily expanded both its physical stores and online operations, however, its online presence still lags behind some rivals. With Costco's growth potential somewhat limited by its membership model and reliance on physical stores.



Source: COST-10k[4]

Amazon.com, Inc. (AMZN): 39.19% YTD

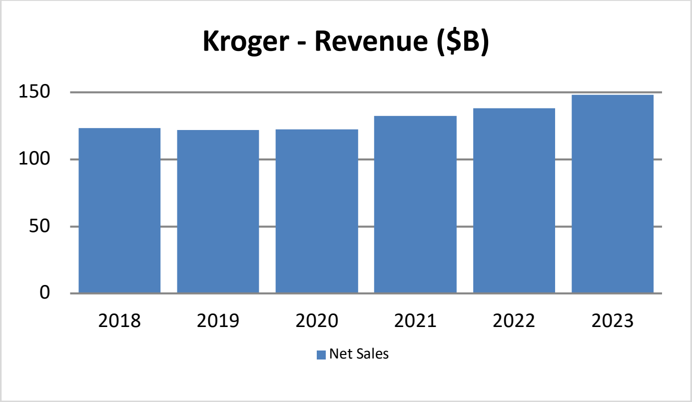
Amazon dominates the e-commerce market, holding around 40% of U.S. market share. The Prime membership program is a key driver, with over 200 million members globally benefiting from free shipping and exclusive services. Amazon's extensive logistics network and investment in AI and automation enable faster and more efficient delivery than its peers. In addition to its dominance in e-commerce, Amazon has expanded into physical retail with the acquisition of Whole Foods and the launch of Amazon Fresh grocery stores. Despite these moves, Amazon's reliance on third-party sellers remains a core component of its success.



Source: AMZN-10k[5]

The Kroger Co. (KR): 27.69% YTD

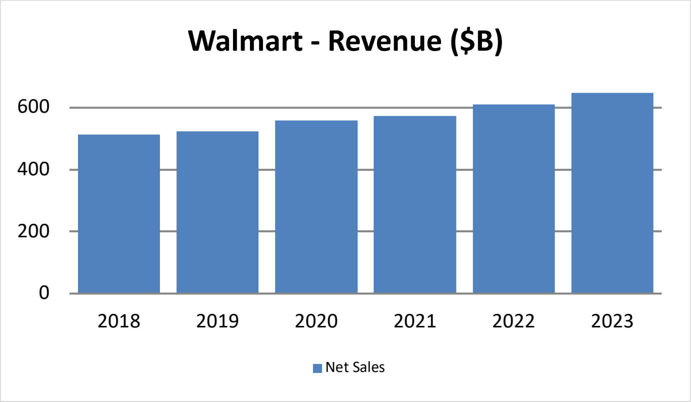
Kroger is one of the largest grocery chains in the U.S., operating 2,700 stores across the country. These include traditional supermarkets, department stores, and discount stores, offering a wide variety of fresh foods, household goods, and private-label products. Kroger's private labels (such as Simple Truth and Kroger-branded items) are a key driver of its profitability (which offer higher-margins). Despite these strengths, Kroger operates in a low-margin sector where pricing pressure and competition are intense, particularly from discount retailers and big-box stores. However, its scale, store network, and investment in loyalty programs (like Kroger Plus) give it some leverage to retain customers.



Source: KR-10k[6]

Walmart Inc. (WMT): 59.08% YTD

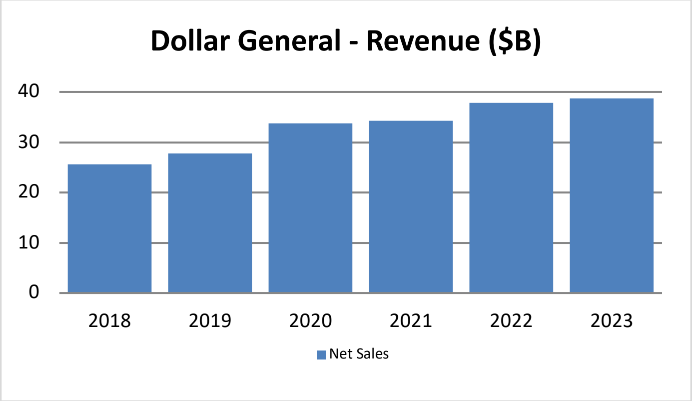
Walmart's focus is on providing a comprehensive shopping experience by offering a wide range of products, from groceries to apparel, home goods, electronics, and more. Walmart's competitive advantage lies in its ability to leverage economies of scale to offer lower prices, particularly in essential categories like groceries, which make up the majority of its sales. Unlike retailers heavily reliant on discretionary categories, Walmart benefits from its focus on everyday low prices and essential goods, making it more resilient to economic downturns. Walmart's business model, which integrates physical stores with e-commerce/digital sales capabilities, is increasingly important to its future growth as the company works to directly compete with Amazon in the online retail space. Walmart has aggressively expanded its online grocery offerings and digital infrastructure by investing in omnichannel capabilities such as Walmart+, curbside pickup, and same-day delivery services.



Source: WMT-10k[7]

Dollar General Corp. (DG): -45.13% YTD

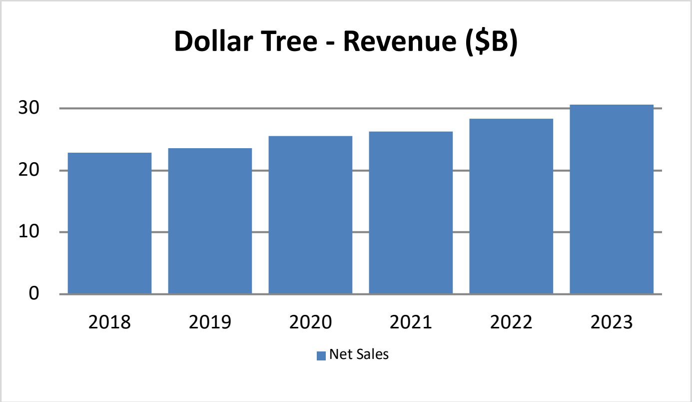
Dollar General is a leading discount retailer, serving low to middle-income consumers with affordable essentials like food, household items, and personal care products. With over 19,000 stores across the U.S. (primarily in rural and underserved areas) its small-format stores allow for rapid expansion in areas where it often faces limited competition. The company's success is driven by its small-format stores, which are cheaper to operate and allow for quick expansion. Dollar General's emphasis on value and low prices has made it more resilient during periods of economic uncertainty, as consumers often trade down to more affordable options. One of the primary struggles has been weaker than expected sales growth as inflation persisted. While Dollar General typically benefits from price sensitive shoppers, inflationary pressures on core consumers have led to lower spending per trip and a decline in discretionary purchases. Additionally, Dollar General has been losing market share as consumers seek better value at competitors who offer lower prices on essential goods.



Source: DG-10k[8]

Dollar Tree Inc. (DLTR): -53.93% YTD

Dollar Tree is another major player in the discount retail sector that operates over 16,000 stores across the United States and Canada. Known for its traditional $1 pricing model (recently raised to $1.25 for most items), Dollar Tree caters to value conscious shoppers. Dollar Tree offers a wide variety of household essentials, party supplies, and seasonal goods at low prices. In recent years, Dollar Tree has faced significant challenges. One of the most notable issues is the impact of inflation on its business model. As costs for goods, labor, and transportation have risen, Dollar Tree was forced to raise its standard price point for most items. While this helped offset rising costs, it also worked to alienate its core customer base, which is highly price sensitive. Similarly to Dollar General, Dollar Tree has been facing increased competition and has been losing market share as consumers seek better value at competitors who offer a better value proposition. The company has also been slower to invest in e-commerce and omnichannel capabilities, which has left it lagging behind competitors that are capitalizing on the shift toward online.



Source: DLTR-10k[9]

Capital Structure Analysis

Company	Debt / Equity	Debt Rating	Beta	Debt / Assets
WMT	73.12	AA	0.53	24.30
AMZN	76.56	AA-	1.15	29.28
COST	42.05	AA	0.79	15.27
KR	165.71	BBB	0.46	38.11
TGT	**132.8**	**A**	**1.24**	**38.38**
DG	268.05	BBB	0.44	53.61
DLTR	142.03	BBB	0.87	47.16

Source: FactSet

Compared to peers, Walmart and Costco maintain conservative balance sheets with strong credit ratings which reflects their position as lower-risk investments. Amazon takes on more leverage to support its capital-intensive growth strategy while still maintaining a strong balance sheet. In contrast, Kroger, Target, Dollar General, and Dollar Tree operate with considerably higher leverage, relying heavily on debt to finance operations and growth. While these companies may effectively use debt to expand, their higher financial risk is noticeable. The most apparent is Dollar General, which shows the most aggressive use of leverage. These companies face increased exposure to interest rate changes and economic downturns (especially in more price-sensitive or discretionary segments).

Profitability Analysis

TTM (%)				
Company	Gross Margin	Operating Margin	Pretax Margin	Net Margin
WMT	24.38%	4.17%	3.37%	2.39%
AMZN	46.98%	6.54%	6.53%	5.29%
COST	12.26%	3.35%	3.50%	2.60%
KR	20.15%	3.30%	1.89%	1.43%
TGT	**25.38%**	**5.41%**	**4.93%**	**3.85%**
DG	30.29%	6.34%	5.48%	4.29%
DLTR	30.42%	2.28%	-3.23%	-3.26%
5 Year Avg. (%)				
Company	Gross Margin	Operating Margin	Pretax Margin	Net Margin
WMT	24.63%	4.41%	3.39%	2.39%
AMZN	42.68%	5.13%	4.95%	4.30%
COST	12.68%	3.46%	3.34%	2.50%
KR	20.14%	2.71%	1.90%	1.48%
TGT	**25.76%**	**6.16%**	**5.55%**	**4.36%**
DG	31.09%	8.72%	8.14%	6.35%
DLTR	30.24%	6.53%	4.38%	3.25%

Source: FactSet

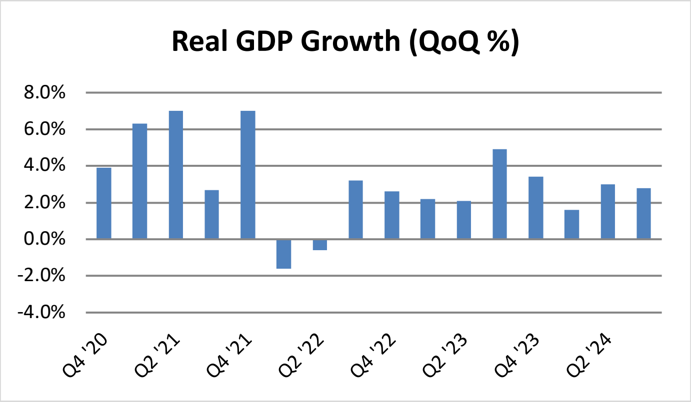
Companies focused on grocery and essentials (TGT, COST, and KR) tend to have lower gross and operating margins as they operate on high volume and low margins. In contrast, e-commerce companies (AMZN) enjoy significantly higher gross margins due to high-margin services and scalable operations. Discount retailers (DG and DLTR), while benefiting from higher gross margins, face challenges in maintaining consistent profitability, particularly those undergoing strategic changes. Retailers with a more diverse product mix (TGT), including discretionary items, tend to have stronger margins, although they are more susceptible to economic pressures that affect consumer spending.

ECONOMIC OUTLOOK

The US economic outlook remains relatively strong despite concerns surrounding growth and interest rate policy. As of the third quarter of 2024, U.S. GDP grew by 2.8% from the second quarter, reflecting sustained economic momentum following a strong rebound earlier in the year. After a slow start in the first quarter of 2024, GDP growth rebounded to a solid 3.0% in the second quarter, and the economy is expected to expand by 2.7% for the year. Consumer spending has been strong, supported by the potential for continued interest rate cuts by the Federal Reserve, which may further boost household debt and consumption. Inflation, which sits at 2.6% as of October, is expected to continue declining, while the Federal Reserve is likely to reduce interest rates by 100 basis points by year-end. Despite slowing labor force participation and a slight rise in unemployment, the broader economic outlook remains positive, with real GDP forecasted to grow steadily.

Economic Growth

The U.S. economy is projected to grow at a steady pace, with real GDP expected to increase by 2.7% in 2024 and moderate to 1.5% in 2025 as inflation continues to decline and the Federal Reserve begins cutting interest rates. Consumer spending (a key driver of economic growth) is forecasted to rise 2.4% this year, bolstered by a likely easing of monetary policy that will support increased consumption.



Source: FRED [14]

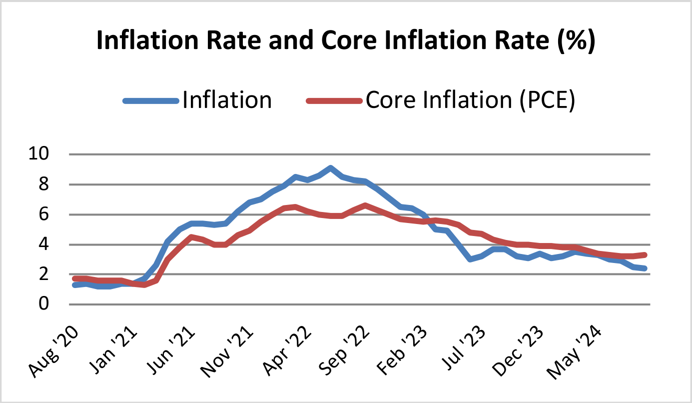
As the largest retailer in the U.S., Target is well-positioned to benefit from steady consumer spending growth as households regain purchasing power with potential interest rate cuts. Target's focus on blending affordable pricing with higher-quality, trend-forward products appeals to middle- and upper-income shoppers, making it attractive during periods of economic stability. However, the projected moderation in GDP growth in 2025 could temper overall consumer demand, particularly in discretionary categories, impacting Target's higher-margin product sales.

Monetary Policy

The Federal Open Market Committee has signaled it will continue to reduce the federal funds rate following the latest 25 basis point cut (which brings the target range to 4.50 – 4.75%). This decision reflects the FOMC's growing confidence that inflation is moving closer to its 2% objective while economic activity remains strong. According to the Fed's dot plot projections, policymakers expect an additional 25 basis points of rate cuts by the end of 2024, bringing the federal funds rate to a range of 4.25 - 4.50%, with further cuts planned for 2025 to lower rates to 3.25 - 3.5%.

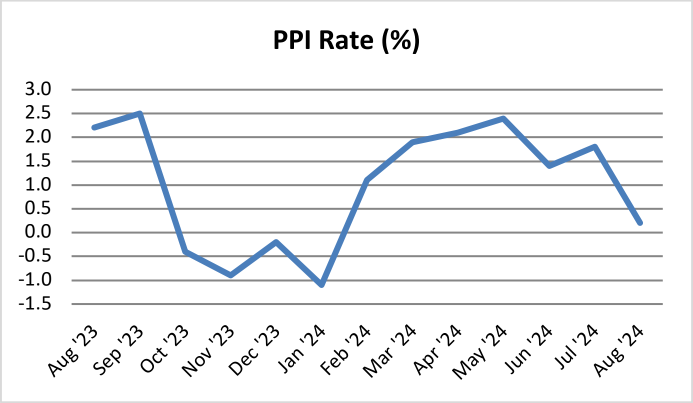
Inflation

Inflation has been a central issue for the U.S. economy over the past couple of years, reaching multi-decade highs due to a confluence of factors. The surge in inflation began in 2021, driven by pandemic-related supply chain disruptions, labor shortages, and significant increases in commodity prices like oil and food. These issues were compounded by pent-up consumer demand following the pandemic lockdowns and unprecedented levels of fiscal and monetary stimulus. As a result, inflation rose sharply, with both headline inflation and core inflation (excluding food and energy) climbing well above the Federal Reserve's 2% target. To combat rising inflation the Federal Reserve started an aggressive cycle of interest rate hikes in 2022, which has helped to moderate inflation. However, core inflation (driven by services and wage growth) has remained more persistent. As inflation begins to recede, the Federal Reserve has signaled a potential shift towards monetary easing, with continued gradual interest rate cuts expected in the near future.



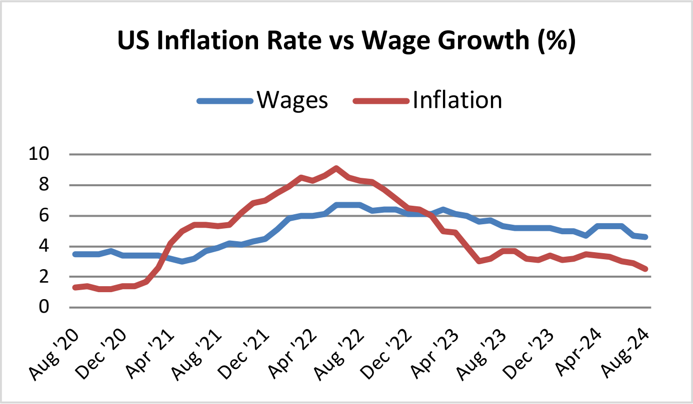
Source: Statista

Looking ahead, inflation is likely to continue its downward trend as supply chains normalize and commodity prices stabilize. However, underlying pressures such as tight labor markets and elevated wage growth may keep core inflation above the target for some time. The challenge for the FOMC will be to balance cooling inflation with maintaining economic growth, especially as the lagged effects of tighter monetary policy start to have a more pronounced impact.



Source: Statista

With CPI moderating from recent highs, Target is benefiting from a stabilization in consumer prices, which helps maintain demand for essential goods while easing pressure on its pricing strategies. As inflation slows, consumers may feel less constrained, potentially leading to an increase in spending across a wider range of Target's discretionary product categories, such as apparel and home furnishings. However, PPI remains elevated, indicating that Target could still face upward pressure on input costs from suppliers in the near term.



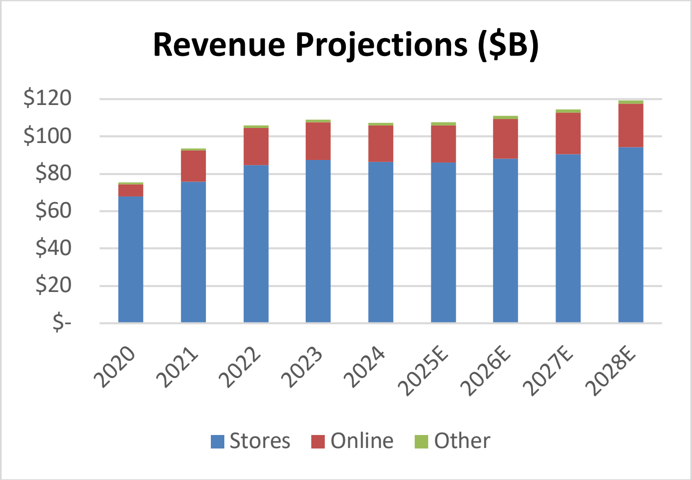
Source: FRED [16]

Additionally, as wages are now growing faster than inflation, this trend is likely to have a positive impact on Target's sales. With more disposable income, consumers are likely to increase spending on essential goods, including groceries and household items, categories where Target has been focusing to drive foot traffic. Higher wages could lead to more frequent shopping trips or larger basket sizes, contributing to higher same-store sales and overall organic growth.

VALUATION

Revenue Decomposition

For Target's revenue decomposition, we applied a hybrid approach, utilizing management expectations and historical growth rates to estimate revenue contributions. Target operates a single store type, with revenue per square foot at $349. We forecast flat same-store sales growth for 2024, around 0.10%, before returning to its historical average of approximately 2.5% in the coming years. Looking ahead, we anticipate new store openings will drive additional growth, as Target plans to roll out more locations over the next few years. This, combined with improved same-store sales, is expected to push Target's total revenue growth to approximately 4% YoY (in line with historical averages).

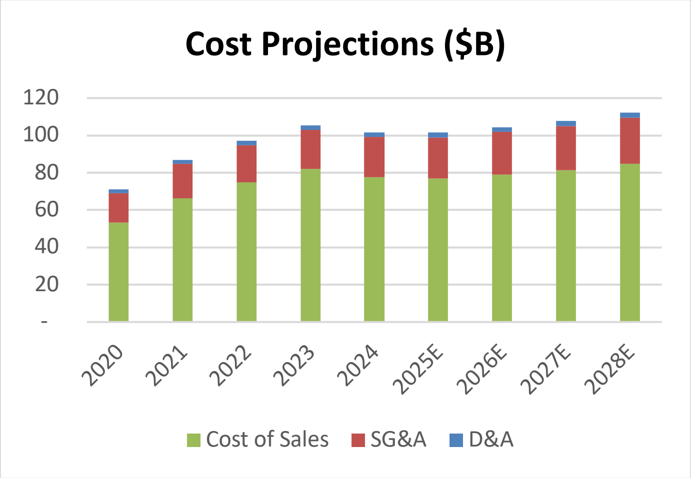


Source: Henry Fund Model

We project that e-commerce will play an increasingly significant role in Target's revenue mix, rising from 18.3% in FY24 to around 20% by FY28E. However, we believe that growth will stabilize for e-commerce as Target struggles to push beyond the broader industry trend, lacking the differentiation needed to outperform its competitors in the digital space. Additionally, we expect limited adoption of Target's paid subscription plan (Target Circle 360) as it does not offer the same perceived value as competitor programs (such as Amazon Prime or Walmart+) given its relatively steep price range.

Cost Structure

Target's cost of sales and operating expenses are projected to rise steadily through FY28E, driven by factors such as rising input costs, logistics, labor expenses, and ongoing investments in technology and digital infrastructure. Inflationary pressures, combined with supply chain disruptions, have contributed to an increase in cost of sales, while Target's investments in omnichannel capabilities (like sortation centers) are expected to enhance efficiency over time, albeit with significant upfront costs. SG&A expenses are also set to grow due to rising wages and continued investments in digital fulfillment.



Source: Henry Fund Model

Capital Expenditure Projections

We expect Target to incur elevated capital expenditures throughout our forecast, projecting $3.5B to $5.0B per year compared to the firm's 10-year average of $3B. A significant portion of this spending will be directed toward store redesign and expansion. Target plans to remodel most of its stores (1,200 stores already in progress) and to open 300 new locations over the next decade. These new stores will feature new design elements aimed at appealing to Gen Z shoppers and increasing the overall store experience. Target will need to invest aggressively in supply chain automation and digital infrastructure to drive down costs and compete with Walmart and Amazon.

WACC

Target's Weighted Average Cost of Capital is estimated at 8.31%. The capital structure comprises 81.9% equity and 18.1% debt. The cost of equity, calculated using the Capital Asset Pricing Model, stands at 9.35%. This is calculated with a risk-free rate of 4.07% (10-year treasury bond yield), a beta of 1.06 (average of semi-annual beta over a 3-year period), and an equity risk premium of 5%. Given that the marginal tax rate is 22%, the after-tax cost of debt is 3.61%, based on the yield to maturity of the highest maturity corporate bond.

DCF/EP Models

The Discounted Cash Flow (DCF) and Economic Profit (EP) valuation models provide an optimistic forecast for Target. The DCF model, focusing on projected free cash flows, which are the Net Operating Profit Less Adjusted Taxes (NOPLAT) minus changes in invested capital, projects growth from $4.9B in 2024 to $8.1B in 2034E, reflecting a CAGR of 5%. The present value of these cash flows and the continuing value are then adjusted to today's terms to assess the operating assets' worth.

The EP model uses the economic value added for shareholders over the required return on invested capital. It assesses wealth creation by determining the excess of ROIC over the WACC. This excess return, when applied to the initial invested capital, yields the EP for a given period. The sum of these present values, when discounted back to today and combined with the ending invested capital, reflects the operating assets' total value. Utilizing these methodologies, Target's operating assets are valued at $87.3B. After accounting for total debt and the present value of operating leases, other liabilities, and excess cash, the value of Target's equity stands at $73.3B. Given the 462.6M outstanding shares, the intrinsic value per share we arrive at is $166, indicating a protentional upside of 5.6%.

DDM Model

Target is a strong dividend payer, with a track record of steady increases. We expect the company to maintain a dividend payout ratio within the 40%-50% range (% of earnings). Target's consistent dividend growth makes the Discount Dividend Model (DDM) a useful tool for estimating the firm's intrinsic value. To determine Target's price using a DDM, we incorporated an EPS growth rate of 3%, a CV year return on equity of 23.0%, and a cost of equity of 9.35%. This allowed us to estimate the P/E multiple in the continuing value year. By multiplying this P/E multiple by the projected EPS in the CV year, we arrived at Target's future stock price. We then discounted this future stock price, along with projected dividend payments, back to the present to determine the intrinsic value of the stock. We reached a target price of $150, suggesting that Target's steady dividend growth, strong ROE, and solid cash flows support its current valuation as fairly priced.

Relative Valuation

Using a relative valuation approach, we compared Target against key industry peers, including Costco, Walmart, Kroger, Dollar General, and Dollar Tree. Target's P/E ratio of 16.5 for 2024 is a notable discount compared to the peer average of 19.00. We believe this relative undervaluation compared to peers like Costco and Walmart is justified, as despite Target's efforts to expand its e-commerce capabilities, we do not see this as a major area of growth. Target's business model has historically been more focused on delivering a unique shopping experience rather than competing purely on price, which contrasts with the strengths of its e-commerce-driven competitors. This emphasis on in-store experience and brand curation may limit the scalability of its online offerings relative to peers with more cost-driven models. Target's PEG ratio of 2.2 for 2024, in line with the peer average of 2.33. Additionally, Target trades at 9.23 EV/EBITDA, below the peer average of 11.72, reflecting its focus on discretionary categories that are more susceptible to economic fluctuations.

Overall, we believe Target's discounted valuation is appropriate, as the company's growth in e-commerce is unlikely to be as transformative compared to its competitors. The firm's focus on experience-driven retail will continue to be its defining characteristic but may limit its ability to capitalize on digital growth to the same extent as Walmart or Amazon.

KEYS TO MONITOR

Catalysts for Growth

1. **Potential Comp Sales Improvement:** If comparable sales maintain their positive trajectory from FQ2, growth rates could return to their long-term target range of 3%-5% before consensus. Current initiatives include refreshed private labels, price cuts, partnerships with national brands like Ulta Beauty, store remodels, and the launch of the Target Circle 360 membership program.

2. **Margin Expansion:** If gross margin expansion materializes through improvements in shrink, lower

freight costs, and cost-saving initiatives, EBIT margins could potentially exceed 7% over the longer term, particularly as Target scales its retail media business (Roundel).

3. **Cost Efficiencies and Store Optimization:** In addition to growth through sales initiatives, Target should benefit from further cost efficiencies through store remodels, expansions in backroom fulfillment space, and the use of sortation centers.

Downside Risks

1. **Weakening Consumer Spending:** Target is more exposed to a downturn in consumer spending due to its higher reliance on discretionary sales compared to peers which focus more on essential goods. A softening economic environment (likely driven by a cooling labor market) could lead to reduced spending on categories like apparel, home goods, and electronics.

2. **Margin Headwinds:** Target may face sustained margin pressure due to the need for price cuts, promotional activities, and investments in programs like Target Circle 360.

3. **Increased E-commerce Competition:** Although Target has made strides in expanding its e-commerce capabilities, the firm may struggle to gain further traction in this space relative to more digitally focused competitors. Target's reliance on its in-store experience and the challenges of scaling its digital growth could hinder its ability to fully capitalize on the shift toward online shopping.

Conclusion

We recommend a hold rating on Target due to its limited short-term upside. Target remains a well-loved brand, particularly among middle and upper income consumers, and its emphasis on delivering a unique shopping experience has helped differentiate it from other retailers. However, we are cautious about Target's ability to translate its brand strength into the e-commerce space, where it lacks the pricing power and scale of competitors like Amazon and Walmart. This will likely limit Target's sales growth, especially as the retail industry continues its shift toward digital channels to match consumer demand.

While we expect strong EPS growth over the next five years, driven by initiatives like store remodels, private label expansion, and improved margin efficiencies, we believe Target will eventually stabilize and mature at a slower growth rate. The company's reliance on discretionary sales and its comparatively higher price points could make it challenging to capture more price-sensitive online shoppers. That said, Target's investments in store optimizations, same-day services, and digital fulfillment will support its long-term growth, but we do not foresee the same level of e-commerce dominance that Walmart and Amazon enjoy. The slower pace of digital adoption and the focus on a premium shopping experience limits Target's ability to command a higher valuation multiple relative to its peers. In conclusion, we have **HOLD** rating on Target, with a target price of $166 (an upside of 8.2%).

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Target Corp

Revenue Decomposition

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Sales	104,611	107,588	105,803	105,928	109,231	112,637	117,399	122,352	127,553	132,965	138,594	144,504	150,654
% change	13.22%	2.85%	-1.66%	0.12%	3.12%	3.12%	4.23%	4.22%	4.25%	4.24%	4.23%	4.26%	4.26%
Other revenue	1,394	1,532	1,609	1,688	1,799	1,898	2,005	2,124	2,245	2,374	2,511	2,655	2,808
% change	20.07%	9.90%	5.03%	4.90%	6.58%	5.50%	5.66%	5.91%	5.69%	5.75%	5.78%	5.74%	5.76%
Total revenue	106,005	109,120	107,412	107,615	111,030	114,535	119,404	124,476	129,798	135,338	141,105	147,160	153,462
% change	13.30%	2.94%	-1.57%	0.19%	3.17%	3.16%	4.25%	4.25%	4.28%	4.27%	4.26%	4.29%	4.28%
Estimated Revenue													
Stores	84,840	87,577	86,441	86,033	88,264	90,539	94,109	97,807	101,685	105,701	109,861	114,222	118,738
Digital	19,771	20,011	19,362	19,894	20,967	22,098	23,289	24,545	25,868	27,263	28,733	30,283	31,916
Total	104,611	107,588	105,803	105,928	109,231	112,637	117,399	122,352	127,553	132,965	138,594	144,504	150,654
Physical Store Channel													
Stores	1,926	1,948	1,956	1,979	2,003	2,027	2,051	2,075	2,100	2,125	2,150	2,176	2,202
Retail Square Feet (k)	243,284	244,584	245,939	253,039	256,107	259,176	262,245	265,313	268,510	271,707	274,903	278,228	281,552
Average Retail Square Feet per Store Unit	126.32	125.56	125.74	127.86	127.86	127.86	127.86	127.86	127.86	127.86	127.86	127.86	127.86
Sales by Stores Channel	81.1%	81.4%	81.7%	81.2%	80.8%	80.4%	80.2%	79.9%	79.7%	79.5%	79.3%	79.0%	78.8%
Revenue per Square Foot	0.35	0.36	0.35	0.34	0.34	0.35	0.36	0.37	0.38	0.39	0.40	0.41	0.42
Digital Store Channel													
Sales	19,771	20,011	19,362	19,894	20,967	22,098	23,289	24,545	25,868	27,263	28,733	30,283	31,916
Sales by Stores Channel	18.9%	18.6%	18.3%	18.8%	19.2%	19.6%	19.8%	20.1%	20.3%	20.5%	20.7%	21.0%	21.2%
Digital Growth	16.35%	1.20%	-3.35%	2.75%	5.39%	5.39%	5.39%	5.39%	5.39%	5.39%	5.39%	5.39%	5.39%

Target Corp

Income Statement

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Sales	104,611	107,588	105,803	105,928	109,231	112,637	117,399	122,352	127,553	132,965	138,594	144,504	150,654
Other revenue	1,394	1,532	1,609	1,688	1,799	1,898	2,005	2,124	2,245	2,374	2,511	2,655	2,808
Total revenue	106,005	109,120	107,412	107,615	111,030	114,535	119,404	124,476	129,798	135,338	141,105	147,160	153,462
Cost of sales	74,963	82,229	77,736	76,945	78,988	81,392	84,806	88,384	92,150	96,077	100,164	104,462	108,936
Gross margin	31,042	26,891	29,676	30,670	32,041	33,142	34,598	36,092	37,647	39,261	40,941	42,698	44,526
Selling, general & administrative expenses	19,752	20,658	21,554	21,919	22,840	23,561	24,563	25,606	26,701	27,841	29,027	30,273	31,569
Depreciation & amortization expenses	2,344	2,385	2,415	2,650	2,678	2,789	2,872	2,906	2,941	2,977	3,012	3,049	3,085
Total operating expenses	22,096	23,043	23,969	24,569	25,518	26,350	27,435	28,513	29,642	30,818	32,040	33,321	34,654
Operating income	8,946	3,848	5,707	6,102	6,523	6,792	7,163	7,579	8,005	8,444	8,901	9,376	9,872
Net interest income (expense)	(421)	(478)	(502)	(579)	(520)	(471)	(435)	(397)	(363)	(335)	(311)	(292)	(278)
Net other income (expense)	382	48	92	106	95	86	80	73	67	61	57	53	51
Earnings before income taxes	8,907	3,418	5,297	5,629	6,098	6,407	6,808	7,255	7,708	8,170	8,647	9,138	9,645
Provision for (benefit from) income taxes	1,961	638	1,159	1,252	1,357	1,426	1,515	1,614	1,715	1,818	1,924	2,033	2,146
Net earnings (loss)	6,946	2,780	4,138	4,376	4,741	4,982	5,293	5,640	5,993	6,352	6,723	7,105	7,499
Weighted average shares outstanding - basic	488.10	462.10	461.50	459.71	454.43	447.76	441.44	435.63	430.06	424.72	419.61	414.72	410.03
Year end shares outstanding	471.27	460.35	461.68	457.75	451.11	444.40	438.47	432.78	427.33	422.11	417.11	412.32	407.73
Net earnings (loss) per share - basic	14.23	6.02	8.96	9.52	10.43	11.13	11.99	12.95	13.94	14.96	16.02	17.13	18.29
Dividends per share	3.38	4.14	4.36	4.45	4.54	4.76	5.13	5.54	5.96	6.39	6.85	7.32	7.82

Target Corp

Common Size Income Statement

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Sales	98.68%	98.60%	98.50%	98.43%	98.38%	98.34%	98.32%	98.29%	98.27%	98.25%	98.22%	98.20%	98.17%
Other revenue	1.32%	1.40%	1.50%	1.57%	1.62%	1.66%	1.68%	1.71%	1.73%	1.75%	1.78%	1.80%	1.83%
Total revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	70.72%	75.36%	72.37%	71.50%	71.14%	71.06%	71.02%	71.01%	71.00%	70.99%	70.99%	70.99%	70.99%
Gross margin	29.28%	24.64%	27.63%	28.50%	28.86%	28.94%	28.98%	28.99%	29.00%	29.01%	29.01%	29.01%	29.01%
Selling, general & administrative expenses	18.63%	18.93%	20.07%	20.37%	20.57%	20.57%	20.57%	20.57%	20.57%	20.57%	20.57%	20.57%	20.57%
Depreciation & amortization expenses	2.21%	2.19%	2.25%	2.46%	2.41%	2.44%	2.41%	2.33%	2.27%	2.20%	2.13%	2.07%	2.01%
Total operating expenses	20.84%	21.12%	22.32%	22.83%	22.98%	23.01%	22.98%	22.91%	22.84%	22.77%	22.71%	22.64%	22.58%
Operating income	8.44%	3.53%	5.31%	5.67%	5.88%	5.93%	6.00%	6.09%	6.17%	6.24%	6.31%	6.37%	6.43%
Net interest income (expense)	-0.40%	-0.44%	-0.47%	-0.54%	-0.47%	-0.41%	-0.36%	-0.32%	-0.28%	-0.25%	-0.22%	-0.20%	-0.18%
Net other income (expense)	0.36%	0.04%	0.09%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%
Earnings before income taxes	8.40%	3.13%	4.93%	5.23%	5.49%	5.59%	5.70%	5.83%	5.94%	6.04%	6.13%	6.21%	6.28%
Provision for (benefit from) income taxes	1.85%	0.58%	1.08%	1.16%	1.22%	1.24%	1.27%	1.30%	1.32%	1.34%	1.36%	1.38%	1.40%
Net earnings (loss)	6.55%	2.55%	3.85%	4.07%	4.27%	4.35%	4.43%	4.53%	4.62%	4.69%	4.76%	4.83%	4.89%

Target Corp

Balance Sheet

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Cash & cash equivalents	5,911	2,229	3,805	4,238	4,721	6,043	7,539	9,034	10,524	12,020	13,525	15,019	16,493
Inventory	13,902	13,499	11,886	12,827	13,234	13,651	14,232	14,836	15,471	16,131	16,818	17,540	18,291
Vendor income receivable	518	526	513	593	611	631	658	685	715	745	777	810	845
Accounts & other receivables	835	1,169	891	880	908	937	977	1,018	1,062	1,107	1,154	1,204	1,256
Prepaid expenses	170	188	201	219	226	233	243	253	264	275	287	299	312
Other current assets	237	235	202	252	260	269	280	292	304	317	331	345	360
Total current assets	21,573	17,846	17,498	19,009	19,960	21,764	23,928	26,120	28,340	30,597	32,893	35,218	37,556
Property & equipment, net	28,181	31,512	33,096	34,226	35,511	36,872	38,354	40,028	41,930	44,073	46,487	49,217	52,289
Operating lease assets	2,556	2,657	3,362	3,477	3,607	3,746	3,896	4,066	4,259	4,477	4,722	5,000	5,312
Goodwill & intangible assets	656	645	639	639	639	639	639	639	639	639	639	639	639
Pension asset	-	-	57	-	-	-	-	-	-	-	-	-	-
Long-term investments	1,501	1,320	483	580	684	795	911	1,030	1,152	1,274	1,396	1,516	1,634
Other assets	-	-	221	221	221	221	221	221	221	221	221	221	221
Total assets	53,811	53,335	55,356	58,152	60,623	64,036	67,949	72,104	76,541	81,281	86,358	91,811	97,651
Accounts payable, net	12,878	11,887	10,498	11,573	12,485	13,160	13,866	14,531	15,192	15,861	16,548	17,264	18,006
Dividends payable	424	497	508	513	519	536	570	607	645	683	723	764	806
Current portion of operating lease liabilities	254	296	329	340	353	367	381	398	417	438	462	489	520
Short-term debt and current portion of debt	3,025	2,026	3,045	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614
Misc current liabilities	3,631	3,598	3,526	3,905	4,100	4,253	4,421	4,583	4,746	4,912	5,084	5,263	5,450
Accrued Payroll	1,789	1,492	1,727	1,798	1,855	1,914	1,995	2,080	2,169	2,261	2,357	2,459	2,564
Total current liabilities	21,747	19,500	19,304	20,404	21,573	22,477	23,465	24,414	25,365	26,332	27,326	28,363	29,440
Long-term debt & other borrowings	13,549	16,009	14,922	14,642	14,147	14,660	15,259	15,920	16,654	17,463	18,357	19,350	20,447
Noncurrent operating lease liabilities	2,493	2,638	3,279	3,217	3,109	3,221	3,353	3,498	3,660	3,837	4,034	4,252	4,493
Total long-term debt	16,042	18,647	18,201	17,859	17,255	17,881	18,613	19,418	20,314	21,301	22,391	23,601	24,940
Deferred income taxes	1,566	2,196	2,480	2,680	2,903	3,051	3,241	3,454	3,670	3,890	4,117	4,351	4,592
Deferred income	479	449	419	542	685	706	736	767	800	834	870	907	946
Pension benefits	45	37	33	28	23	20	17	14	12	10	9	8	6
Other noncurrent liabilities	1,105	1,274	1,487	1,459	1,410	1,461	1,521	1,586	1,660	1,740	1,829	1,928	2,038
Total liabilities	40,984	42,103	41,924	42,971	43,850	45,596	47,593	49,655	51,821	54,108	56,542	59,159	61,962
Common stock & APIC	6,460	6,646	6,799	7,060	7,320	7,450	7,450	7,450	7,450	7,450	7,450	7,450	7,450
Retained earnings	6,920	5,005	7,093	8,581	9,913	11,450	13,366	15,458	17,729	20,183	22,825	25,662	28,699
Pension	(583)	(696)	(719)	(719)	(719)	(719)	(719)	(719)	(719)	(719)	(719)	(719)	(719)
Accumulated other comprehensive income (loss)	(553)	(419)	(460)	(460)	(460)	(460)	(460)	(460)	(460)	(460)	(460)	(460)	(460)
Total Equity	12,827	11,232	13,432	15,181	16,773	18,440	20,356	22,449	24,720	27,173	29,816	32,652	35,689

Target Corp

Common Size Balance Sheet

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Cash & cash equivalents	5.58%	2.04%	3.54%	3.94%	4.25%	5.28%	6.31%	7.26%	8.11%	8.88%	9.58%	10.21%	10.75%
Inventory	13.11%	12.37%	11.07%	11.92%	11.92%	11.92%	11.92%	11.92%	11.92%	11.92%	11.92%	11.92%	11.92%
Vendor income receivable	0.49%	0.48%	0.48%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%
Accounts & other receivables	0.79%	1.07%	0.83%	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%
Prepaid expenses	0.16%	0.17%	0.19%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Other current assets	0.22%	0.22%	0.19%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
Other current assets	1.66%	1.94%	1.68%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%
Total current assets	20.35%	16.35%	16.29%	17.66%	17.98%	19.00%	20.04%	20.98%	21.83%	22.61%	23.31%	23.93%	24.47%
Property & equipment, net	26.58%	28.88%	30.81%	31.80%	31.98%	32.19%	32.12%	32.16%	32.30%	32.57%	32.94%	33.44%	34.07%
Operating lease assets	2.41%	2.43%	3.13%	3.23%	3.25%	3.27%	3.26%	3.27%	3.28%	3.31%	3.35%	3.40%	3.46%
Goodwill & intangible assets	0.62%	0.59%	0.59%	0.59%	0.58%	0.56%	0.54%	0.51%	0.49%	0.47%	0.45%	0.43%	0.42%
Pension asset	0.00%	0.00%	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other noncurrent assets	0.35%	0.22%	1.30%	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%
Long-term investments	1.42%	1.21%	0.45%	0.54%	0.62%	0.69%	0.76%	0.83%	0.89%	0.94%	0.99%	1.03%	1.06%
Other assets	0.00%	0.00%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%
Total assets	50.76%	48.88%	51.54%	54.04%	54.60%	55.91%	56.91%	57.93%	58.97%	60.06%	61.20%	62.39%	63.63%
Accounts payable, net	12.15%	10.89%	9.77%	10.75%	11.24%	11.49%	11.61%	11.67%	11.70%	11.72%	11.73%	11.73%	11.73%
Dividends payable	0.40%	0.46%	0.47%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Current portion of operating lease liabiliti	0.24%	0.27%	0.31%	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%	0.33%	0.33%	0.34%
Short-term debt and current portion of de	2.85%	1.86%	2.83%	2.43%	2.35%	2.28%	2.19%	2.10%	2.01%	1.93%	1.85%	1.78%	1.70%
Misc current liabilities	3.43%	3.30%	3.28%	3.63%	3.69%	3.71%	3.70%	3.68%	3.66%	3.63%	3.60%	3.58%	3.55%
Accrued Payroll	1.69%	1.37%	1.61%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%
Total current liabilities	20.52%	17.87%	17.97%	18.96%	19.43%	19.62%	19.65%	19.61%	19.54%	19.46%	19.37%	19.27%	19.18%
Long-term debt & other borrowings	12.78%	14.67%	13.89%	13.61%	12.74%	12.80%	12.78%	12.79%	12.83%	12.90%	13.01%	13.15%	13.32%
Noncurrent operating lease liabilities	2.35%	2.42%	3.05%	2.99%	2.80%	2.81%	2.81%	2.81%	2.82%	2.84%	2.86%	2.89%	2.93%
Total long-term debt	15.13%	17.09%	16.95%	16.60%	15.54%	15.61%	15.59%	15.60%	15.65%	15.74%	15.87%	16.04%	16.25%
Deferred income taxes	1.48%	2.01%	2.31%	2.49%	2.61%	2.66%	2.71%	2.77%	2.83%	2.87%	2.92%	2.96%	2.99%
Deferred income	0.45%	0.41%	0.39%	0.50%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%
Pension benefits	0.04%	0.03%	0.03%	0.03%	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.00%
Other noncurrent liabilities	1.04%	1.17%	1.38%	1.36%	1.27%	1.28%	1.27%	1.27%	1.28%	1.29%	1.30%	1.31%	1.33%
Total noncurrent liabilities	18.15%	20.71%	21.06%	20.97%	20.06%	20.19%	20.21%	20.28%	20.38%	20.52%	20.70%	20.93%	21.19%
Retained earnings	6.53%	4.59%	6.60%	7.97%	8.93%	10.00%	11.19%	12.42%	13.66%	14.91%	16.18%	17.44%	18.70%
Pension	-0.55%	-0.64%	-0.67%	-0.67%	-0.65%	-0.63%	-0.60%	-0.58%	-0.55%	-0.53%	-0.51%	-0.49%	-0.47%
Accumulated other comprehensive incon	-0.52%	-0.38%	-0.43%	-0.43%	-0.41%	-0.40%	-0.39%	-0.37%	-0.35%	-0.34%	-0.33%	-0.31%	-0.30%
Total Equity	12.10%	10.29%	12.51%	14.11%	15.11%	16.10%	17.05%	18.03%	19.04%	20.08%	21.13%	22.19%	23.26%

Target Corp

Historical Cash Flow Statement

Fiscal Years Ending Jan. 28	2018	2019	2020	2021	2022	2023	2024
Net earnings	2934	3281	2937	4368	6946	2780	4138
Losses (earnings) from discontinued operations, net of tax	-6	-12	-7	0	0	0	0
Net earnings from continuing operations	2928	3269	2930	4368	6946	0	0
Depreciation & amortization	2445	2604	2474	2485	2642	2700	2801
Share-based compensation expense	112	147	132	200	228	220	251
Deferred income taxes	-192	178	322	-184	522	582	298
Loss (gain) on Dermstore LLC ("Dermstore") sale	0	0	0	0	-335	0	0
Loss on debt extinguishment	123	10	0	512	0	0	0
Noncash losses (gains) & other, net	192	29	95	86	67	172	94
Inventory	-348	505	-900	-1661	-3249	403	1613
Other assets	-168	18	-299	-137	-78	22	-85
Accounts payable	1307	140	1127	2925	2628	-2237	-1216
Accrued liabilities	0	0	0	0	0	0	727
Accrued & other liabilities	450	199	89	1931	-746	-624	0
Net cash flows from operating activities	6,923	7,117	5,973	10,525	8,625	4,018	8,621
Expenditures for property & equipment	-2533	-3027	-3516	-2649	-3544	-5528	-4806
Proceeds from disposal of property & equipment	31	63	85	42	27	8	24
Proceeds from Dermstore sale	0	0	0	0	356	0	0
Cash paid for acquisitions, net of cash assumed	-518	0	0	0	0	0	0
Other investments	-55	20	15	16	7	16	22
Net cash flows from investing activities	(3,075)	(2,944)	(3,416)	(2,591)	(3,154)	(5,504)	(4,760)
Shares withheld for taxes on share-based compensation	0	0	0	0	0	0	-127
Additions to long-term debt	739	1739	0	2480	1972	2625	0
Reductions of long-term debt	-2180	-2069	-281	-2415	-1147	-163	-147
Dividends paid	-1338	-1330	-1335	-1343	-1548	-1836	-2011
Repurchase of stock	-1046	-1565	-2124	-745	-7356	-2826	0
Stock option exercises	108	73	96	23	8	4	0
Net cash flows from financing activities	(3,717)	(3,152)	(3,644)	(2,000)	(8,071)	(2,196)	(2,285)
Net increase (decrease) in cash & cash equivalents	131	1021	-1087	5934	-2600	-3682	1576
Cash & cash equivalents at beginning of period	2512	1556	2643	2577	8511	5911	2229
Cash & cash equivalents at end of period	2643	2577	1556	8511	5911	2229	3805
Interest paid, net of capitalized interest	678	492	476	939	414	449	605
Income taxes paid	934	696	373	1031	2063	213	374

Target Corp

Forecasted Cash Flow Statement

Fiscal Years Ending Jan. 28	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Net income	4,376	4,741	4,982	5,293	5,640	5,993	6,352	6,723	7,105	7,499
Depreciation & amortization	2,650	2,678	2,789	2,872	2,906	2,941	2,977	3,012	3,049	3,085
Trade & other receivables, net	(69)	(47)	(48)	(67)	(69)	(73)	(76)	(79)	(83)	(86)
Inventories	(941)	(407)	(418)	(580)	(604)	(634)	(660)	(687)	(722)	(751)
Prepaid expenses & other assets	(68)	(15)	(15)	(21)	(22)	(23)	(24)	(25)	(27)	(28)
Accounts payable	1,075	912	675	706	665	661	669	687	716	742
Misc current liabilities	379	195	152	168	162	163	166	172	179	186
Accrued expenses & liabilities	71	57	59	81	85	89	93	96	101	105
Deferred income taxes	200	224	147	191	213	216	220	227	234	241
Pension assets	57	-	-	-	-	-	-	-	-	-
Dividends payable	5	6	17	33	37	38	38	40	41	42
Other assets, net	-	-	-	-	-	-	-	-	-	-
Net cash flows from operating activities	7,736	8,344	8,340	8,676	9,013	9,371	9,755	10,166	10,593	11,036
Capital expenditures	(3,780)	(3,963)	(4,149)	(4,354)	(4,580)	(4,843)	(5,120)	(5,426)	(5,779)	(6,157)
Lease right-of-use assets	(115)	(131)	(138)	(151)	(170)	(193)	(218)	(245)	(277)	(312)
Net cash flows from investing activities	(3,895)	(4,094)	(4,288)	(4,505)	(4,750)	(5,037)	(5,338)	(5,671)	(6,056)	(6,469)
Common stock	261	261	130	-	-	-	-	-	-	-
Stock repurchaes	(835)	(1,333)	(1,299)	(1,099)	(1,121)	(1,143)	(1,166)	(1,190)	(1,213)	(1,238)
Dividends	(2,053)	(2,076)	(2,146)	(2,278)	(2,427)	(2,578)	(2,732)	(2,892)	(3,055)	(3,224)
Current portion of long-term debt	(431)	-	-	-	-	-	-	-	-	-
Long-term debt, net of current maturities	(342)	(604)	626	731	806	895	987	1,090	1,211	1,338
Long-term investment assets	(97)	(104)	(111)	(116)	(119)	(122)	(122)	(122)	(120)	(117)
Other long-term liabilities	89	89	69	87	95	104	113	123	135	147
Net cash flows from financing activities	(3,407)	(3,768)	(2,730)	(2,675)	(2,767)	(2,845)	(2,921)	(2,990)	(3,043)	(3,093)
Cash & equivalents increase (decrease)	433	482	1,323	1,495	1,496	1,490	1,496	1,505	1,494	1,474
Cash & equivalents at beginning of year	3,805	4,238	4,721	6,043	7,539	9,034	10,524	12,020	13,525	15,019
Cash & equivalents at end of year	4,238	4,721	6,043	7,539	9,034	10,524	12,020	13,525	15,019	16,493

Target Corp

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*
Risk-Free Rate	4.15%	*10-Year Treasury*
Beta	1.05	*3-Year Average of Semi-Annual Betas*
Equity Risk Premium	5.00%	*HF Estimate*
Cost of Equity	**9.40%**	
Cost of Debt:		
Risk-Free Rate	4.15%	*10-Year Treasury*
Implied Default Premium	0.49%	
Pre-Tax Cost of Debt	4.64%	*Longest Maturity Corporate Bond*
Marginal Tax Rate	22%	
After-Tax Cost of Debt	**3.61%**	

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	462,637	
Current Stock Price	153	
MV of Equity	**71,000,835**	81.57%
Market Value of Debt:		
Current Portion of LTD	1,116,000	
Long-Term Debt	14,922,000	
MV of Total Debt	**16,038,000**	18.43%
Market Value of the Firm	**87,038,835**	100.00%

	Estimated WACC	**8.33%**

Target Corp

Value Driver Estimation

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
NOPLAT:	7,581	3,782	4,863	5,056	5,412	5,549	5,885	6,237	6,577	6,929	7,300	7,685	8,088
% change	50.77%	-50.11%	28.59%	3.96%	7.04%	2.53%	6.07%	5.97%	5.46%	5.35%	5.36%	5.27%	5.24%
EBIT Calculation:													
Add: Sales	104,611	107,588	105,803	105,928	109,231	112,637	117,399	122,352	127,553	132,965	138,594	144,504	150,654
Add: Other Revenue	1,394	1,532	1,609	1,688	1,799	1,898	2,005	2,124	2,245	2,374	2,511	2,655	2,808
Less: Cost of Sales	74,963	82,229	77,736	76,945	78,988	81,392	84,806	88,384	92,150	96,077	100,164	104,462	108,936
Less: Selling, general & administrative expenses	19,752	20,658	21,554	21,919	22,840	23,561	24,563	25,606	26,701	27,841	29,027	30,273	31,569
Less: Depreciation & amortization expenses	2,344	2,385	2,415	2,650	2,678	2,789	2,872	2,906	2,941	2,977	3,012	3,049	3,085
Add: Implied lease interest	106	110	140	144	150	155	162	169	177	186	196	207	220
EBIT	9,052	3,958	5,847	6,246	6,673	6,947	7,325	7,748	8,182	8,629	9,097	9,584	10,092
Tax Adjustments:													
Income tax provision	1,961	638	1,159	1,252	1,357	1,426	1,515	1,614	1,715	1,818	1,924	2,033	2,146
Add: Implied lease interest	24	25	31	32	33	35	36	38	39	41	44	46	49
Add: Tax on interest expense	94	106	112	129	116	105	97	88	81	75	69	65	62
Less: Other income (expense), net	85	11	20	24	21	19	18	16	15	14	13	12	11
Total Adjusted Taxes	1,993	758	1,281	1,390	1,485	1,546	1,630	1,724	1,820	1,920	2,024	2,132	2,246
Total Change in Deferred Taxes	522	582	298	200	224	147	191	213	216	220	227	234	241
Operating Current Assets:													
Normal cash	2,165	2,229	2,194	2,198	2,268	2,340	2,439	2,543	2,651	2,765	2,882	3,006	3,135
Inventories	13,902	13,499	11,886	12,827	13,234	13,651	14,232	14,836	15,471	16,131	16,818	17,540	18,291
Prepaid expenses & other assets	170	188	201	219	226	233	243	253	264	275	287	299	312
Receivables	1,353	1,695	1,404	1,473	1,520	1,568	1,634	1,704	1,777	1,853	1,932	2,014	2,101
Other current assets	237	235	202	252	260	269	280	292	304	317	331	345	360
Total Operating CA	17,827	17,846	15,887	16,969	17,508	18,060	18,828	19,628	20,467	21,341	22,250	23,205	24,199
Operating Current Liabilities:													
Accounts payable, net	12,878	11,887	10,498	11,573	12,485	13,160	13,866	14,531	15,192	15,861	16,548	17,264	18,006
Misc current liabilities	3,631	3,598	3,526	3,905	4,100	4,253	4,421	4,583	4,746	4,912	5,084	5,263	5,450
Accrued Payroll	1,789	1,492	1,727	1,798	1,855	1,914	1,995	2,080	2,169	2,261	2,357	2,459	2,564
Total Operating CL	18,298	16,977	15,751	17,276	18,440	19,326	20,281	21,194	22,107	23,035	23,990	24,986	26,020
Net Working Capital	(471)	869	136	(307)	(933)	(1,266)	(1,453)	(1,566)	(1,640)	(1,694)	(1,740)	(1,781)	(1,821)
PPE, net	28,181	31,512	33,096	34,226	35,511	36,872	38,354	40,028	41,930	44,073	46,487	49,217	52,289
Net Other Operating Assets:													
Operating lease right-of-use assets	2,556	2,657	3,362	3,477	3,607	3,746	3,896	4,066	4,259	4,477	4,722	5,000	5,312
Other assets	-	-	221	221	221	221	221	221	221	221	221	221	221
Total Net Other Operating Assets	2,556	2,657	3,583	3,698	3,828	3,967	4,117	4,287	4,480	4,698	4,943	5,221	5,533
Net Other Operating Liabilities:													
Other noncurrent liabilities	1,105	1,274	1,487	1,459	1,410	1,461	1,521	1,586	1,660	1,740	1,829	1,928	2,038
Deferred income	479	449	419	542	685	706	736	767	800	834	870	907	946
Total Net Other Operating Liabilities	1,584	1,723	1,906	2,001	2,094	2,167	2,257	2,354	2,460	2,575	2,699	2,836	2,984
Invested Capital (IC)	28,682	33,315	34,909	35,616	36,312	37,405	38,761	40,395	42,311	44,502	46,991	49,821	53,017
Free Cash Flow (FCF):													
NOPLAT	7,581	3,782	4,863	5,056	5,412	5,549	5,885	6,237	6,577	6,929	7,300	7,685	8,088
Change in IC	3,258	4,633	1,594	707	696	1,093	1,356	1,634	1,915	2,192	2,489	2,830	3,195
FCF	**4,323**	**(851)**	**3,269**	**4,349**	**4,715**	**4,456**	**4,530**	**4,602**	**4,662**	**4,738**	**4,812**	**4,855**	**4,893**
Return on Invested Capital (ROIC):													
NOPLAT	7,581	3,782	4,863	5,056	5,412	5,549	5,885	6,237	6,577	6,929	7,300	7,685	8,088
Beginning IC	25,424	28,682	33,315	34,909	35,616	36,312	37,405	38,761	40,395	42,311	44,502	46,991	49,821
ROIC	**29.82%**	**13.19%**	**14.60%**	**14.48%**	**15.19%**	**15.28%**	**15.73%**	**16.09%**	**16.28%**	**16.38%**	**16.40%**	**16.35%**	**16.23%**
Economic Profit (EP):													
Beginning IC	25,424	28,682	33,315	34,909	35,616	36,312	37,405	38,761	40,395	42,311	44,502	46,991	49,821
x (ROIC - WACC)	21.48%	4.85%	6.27%	6.15%	6.86%	6.95%	7.40%	7.76%	7.95%	8.04%	8.07%	8.02%	7.90%
EP	**5,462**	**1,392**	**2,087**	**2,147**	**2,444**	**2,523**	**2,769**	**3,007**	**3,211**	**3,404**	**3,592**	**3,769**	**3,936**

Target Corp

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.75%
CV Year ROIC	16.23%
WACC	8.33%
Cost of Equity	9.40%

Fiscal Years Ending Jan. 28	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
DCF Model:										
Free Cash Flow (FCF)	4,349	4,715	4,456	4,530	4,602	4,662	4,738	4,812	4,855	4,893
Continuing Value (CV)										120,332
PV of FCF	4,015	4,018	3,505	3,289	3,084	2,884	2,705	2,536	2,362	58,553
Value of Operating Assets:	86,951									
Non-Operating Adjustments										
Less: Total debt	(16,038)									
Less: ESOP	(100)									
Add: Pension	24									
Add: Excess cash	1,611									
Add: Long-term investments	483									
Value of Equity	72,931									
Shares Outstanding	462.64									
Intrinsic Value of Last FYE	$ 157.64									
Implied Price as of Today	$ 165.69									
EP Model:										
Economic Profit (EP)	2,147	2,444	2,523	2,769	3,007	3,211	3,404	3,592	3,769	3,936
Continuing Value (CV)										70,510
PV of EP	1,982	2,082	1,984	2,010	2,015	1,987	1,944	1,894	1,834	34,310
Total PV of EP	52,042									
Invested Capital (last FYE)	34,909									
Value of Operating Assets:	86,951									
Non-Operating Adjustments										
Less: Total debt	(16,038)									
Less: ESOP	(100)									
Add: Pension	24									
Add: Excess cash	1,611									
Add: Long-term investments	483									
Value of Equity	72,931									
Shares Outstanding	462.6									
Intrinsic Value of Last FYE	$ 157.64									
Implied Price as of Today	$ 165.69									

Target Corp

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EPS	$ 9.52	$ 10.43	$ 11.13	$ 11.99	$ 12.95	$ 13.94	$ 14.96	$ 16.02	$ 17.13	$ 18.29
Key Assumptions										
CV growth of EPS	3.00%									
CV Year ROE	22.97%									
Cost of Equity	9.40%									
Future Cash Flows										
P/E Multiple (CV Year)										13.58
EPS (CV Year)										$ 18.29
Future Stock Price										$ 248.42
Dividends Per Share	$ 4.45	$ 4.54	$ 4.76	$ 5.13	$ 5.54	$ 5.96	$ 6.39	$ 6.85	$ 7.32	
Discounted Cash Flows	$ 4.07	$ 3.79	$ 3.63	$ 3.58	$ 3.53	$ 3.48	$ 3.41	$ 3.34	$ 3.26	$ 110.67
Intrinsic Value as of Last FYE	$ 142.76									
Implied Price as of Today	$ 150.04									

Target Corp

Sensitivity Tables

DCF

CV Growth NOPLAT

WACC

$165.69	2.25%	2.40%	2.65%	2.75%	2.85%	3.00%	3.15%
7.75%	181.26	183.76	188.26	190.18	192.18	195.34	198.71
8.00%	171.27	173.45	177.34	179.00	180.72	183.44	186.32
8.15%	165.70	167.69	171.27	172.79	174.37	176.85	179.49
8.33%	159.28	161.09	164.32	165.69	167.11	169.34	171.70
8.35%	158.69	160.48	163.68	165.04	166.45	168.66	170.99
8.50%	153.74	155.39	158.34	159.58	160.88	162.91	165.05
9.00%	138.86	140.13	142.38	143.33	144.31	145.84	147.45

DCF

COGS 2025E

Marginal Tax Rate

$165.69	71.00%	71.25%	71.50%	71.75%	72.00%	72.50%	73.00%
20.00%	172.57	171.58	170.59	169.59	168.60	166.61	164.62
20.50%	171.48	170.49	169.50	168.51	167.52	165.54	163.56
21.00%	170.38	169.40	168.42	167.43	166.44	164.47	162.50
21.25%	169.83	168.85	167.87	166.89	165.90	163.94	161.97
21.50%	169.28	168.31	167.33	166.34	165.36	163.40	161.44
22.00%	168.18	167.21	166.23	165.26	164.28	162.33	160.37
23.00%	165.98	165.01	164.04	163.08	162.11	160.17	158.24

DCF

Beta

Equity Risk Premium

$165.69	0.80	0.90	1.00	1.05	1.10	1.15	1.25
4.50%	229.75	208.55	190.48	182.42	174.92	167.92	155.23
4.75%	219.89	199.17	181.56	173.72	166.43	159.63	147.32
4.85%	216.15	195.62	178.19	170.43	163.22	156.50	144.34
5.00%	210.73	190.48	173.32	165.69	158.59	151.98	140.04
5.15%	205.55	185.58	168.67	161.16	154.18	147.68	135.95
5.25%	202.21	182.42	165.69	158.25	151.35	144.92	133.32
5.50%	194.26	174.92	158.59	151.35	144.63	138.38	127.10

DDM

Cost of Equity

CV EPS Growth

$150.04	8.75%	9.00%	9.25%	9.40%	9.50%	9.60%	9.75%
1.75%	153.62	146.90	140.66	137.13	134.86	132.65	129.44
2.00%	156.58	149.55	143.04	139.36	137.00	134.70	131.38
2.25%	159.76	152.39	145.59	141.75	139.29	136.90	133.44
2.50%	163.20	155.46	148.33	144.32	141.74	139.25	135.64
2.75%	166.92	158.77	151.28	147.07	144.38	141.77	138.00
3.00%	170.96	162.35	154.46	150.04	147.22	144.48	140.54
3.25%	175.38	166.25	157.91	153.26	150.28	147.40	143.27

DCF

Capital Expenditure Per Store ($M)

Depreciation Rate

$165.69	15.00	14.01	13.00	12.00	11.00	10.00	9.00
1.00%	165.76	166.25	166.74	167.23	167.71	168.20	168.69
1.20%	165.20	165.69	166.18	166.67	167.15	167.64	168.13
1.75%	163.63	164.11	164.61	165.09	165.58	166.07	166.55
2.50%	161.40	161.89	162.38	162.87	163.35	163.84	164.33
3.00%	159.87	160.35	160.84	161.33	161.82	162.30	162.79
3.50%	158.29	158.77	159.26	159.75	160.23	160.72	161.21
5.00%	153.27	153.75	154.25	154.73	155.22	155.71	156.19

DCF

Average Growth Rate of New Stores

Average Sq. Ft. of Store

$165.69	2.00%	2.50%	2.70%	2.73%	2.75%	3.00%	3.25%
115.00	128.78	135.99	138.95	139.35	139.69	143.45	147.28
120.00	138.56	146.09	149.17	149.59	149.95	153.87	157.86
125.00	148.34	156.18	159.39	159.83	160.20	164.29	168.45
127.86	153.94	161.96	165.24	165.69	166.07	170.25	174.50
130.00	158.12	166.27	169.61	170.06	170.45	174.70	179.03
135.00	167.89	176.36	179.83	180.30	180.70	185.12	189.61
140.00	177.66	186.44	190.04	190.53	190.95	195.53	200.18

Target Corp

Relative Valuation Models

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 24	P/E 25	Est. 5yr EPS gr.	PEG 24	PEG 25	EBITDA	EV	Sales	EV/EBITDA	P/S
~~COST~~	~~COSTCO WHOLESALE CORI~~	~~$ 923.89~~	~~$16.35~~	~~$17.79~~	~~56.51~~	~~51.93~~	~~9.7~~	~~5.84~~	~~5.37~~	~~11.24~~	~~403.89~~	~~253.70~~	~~35.93~~	~~1.61~~
~~HD~~	~~THE HOME DEPOT, INC.~~	~~$ 405.72~~	~~$14.82~~	~~$15.58~~	~~27.38~~	~~26.04~~	~~3.8~~	~~7.20~~	~~6.85~~	~~24.58~~	~~440.44~~	~~152.09~~	~~17.92~~	~~2.65~~
WMT	WALMART INC.	$ 84.47	$2.44	$2.72	34.62	31.06	8.2	4.22	3.78	40.78	699.01	665.04	17.14	1.02
KR	THE KROGER CO.	$ 59.09	$4.44	$4.54	13.31	13.02	8.0	1.66	1.63	8.07	55.93	150.20	6.93	0.28
BJ	BJ'S WHOLESALE CLUB HO	$ 86.97	$3.84	$4.25	22.65	20.46	8.0	2.83	2.56	1.04	13.60	20.41	13.08	0.57
DG	DOLLAR GENERAL CORPOI	$ 77.05	$5.88	$6.43	13.10	11.98	~~2.1~~	~~(6.33)~~	~~(5.79)~~	3.03	35.63	39.68	11.76	0.43
DLTR	DOLLAR TREE, INC.	$ 65.67	$5.52	$6.29	11.90	10.44	15.0	0.80	0.70	2.60	25.21	30.97	9.70	0.46
				Average	**19.12**	**17.39**		**2.38**	**2.17**				**11.72**	**0.55**
TGT	TARGET CORPORATION	$ 153.47	9.52	10.43	16.1	14.7	7.6	2.1	1.9	9.23	70.43	107.30	7.63	0.66

Implied Relative Value:

P/E (EPS24)	**$**	**181.97**
P/E (EPS25)	**$**	**181.45**
PEG (EPS24)	**$**	**172.72**
PEG (EPS25)	**$**	**172.55**
EV/EBITDA	**$**	**233.80**
P/S	**$**	**128.18**

Target Corp
Key Management Ratios

Fiscal Years Ending Jan. 28	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Liquidity Ratios:													
Current Ratio (Current Assets / Current Liabilities)	0.99	0.92	0.91	0.93	0.93	0.97	1.02	1.07	1.12	1.16	1.20	1.24	1.28
Quick Ratio ((Cash + Recievables + Investment Securities) / Current Liabilities)	0.91	0.81	0.81	0.84	0.83	0.88	0.93	0.98	1.02	1.07	1.11	1.15	1.18
Cash Ratio (Cash / Current Liabilities)	0.27	0.11	0.20	0.21	0.22	0.27	0.32	0.37	0.41	0.46	0.49	0.53	0.56
Non-Cash Current Ratio ((Current Assets - Cash) / Current Liabilities)	0.72	0.80	0.71	0.72	0.71	0.70	0.70	0.70	0.70	0.71	0.71	0.71	0.72
Asset-Management Ratios:													
Total Asset Turnover (Revenue / Total Assets)	1.97	2.05	1.94	1.85	1.83	1.79	1.76	1.73	1.70	1.67	1.63	1.60	1.57
Net Working Capital Turnover (Revenue / Net Working Capital)	225.24	(125.57)	(789.15)	350.52	119.05	90.48	82.16	79.50	79.16	79.88	81.12	82.63	84.26
Receivables Turnover (Revenue / Net Receivable)	78.35	64.38	76.50	73.05	73.05	73.05	73.05	73.05	73.05	73.05	73.05	73.05	73.05
Inventory Turnover (Revenue / Avg. Inventory)	8.52	7.85	8.34	8.57	8.38	8.38	8.42	8.42	8.42	8.42	8.41	8.41	8.41
Financial Leverage Ratios:													
Debt to Equity (Total Liabilities / Total Shareholder's Equity)	3.20	3.75	3.12	2.83	2.61	2.47	2.34	2.21	2.10	1.99	1.90	1.81	1.74
Debt to Equity (Total Long-Term Liabilities / Total Shareholder's Equity)	1.50	2.01	1.68	1.49	1.33	1.25	1.19	1.12	1.07	1.02	0.98	0.94	0.91
Equity Multiplier (Total Assets / Total Equity)	4.20	4.75	4.12	3.83	3.61	3.47	3.34	3.21	3.10	2.99	2.90	2.81	2.74
Debt to Assets (Total Liabilities / Total Assets)	0.76	0.79	0.76	0.74	0.72	0.71	0.70	0.69	0.68	0.67	0.65	0.64	0.63
Profitability Ratios:													
Return on Equity (NI/Beg TSE)	48.10%	21.67%	36.84%	32.58%	31.23%	29.70%	28.70%	27.71%	26.70%	25.70%	24.74%	23.83%	22.97%
Return on Assets (Net Income / Total Assets)	12.91%	5.21%	7.48%	7.53%	7.82%	7.78%	7.79%	7.82%	7.83%	7.82%	7.79%	7.74%	7.68%
Gross Profit Margin (Operating Income / Revenue)	29.28%	24.64%	27.63%	28.50%	28.86%	28.94%	28.98%	28.99%	29.00%	29.01%	29.01%	29.01%	29.01%
Net Profit Margin (Net Income / Revenue)	6.55%	2.55%	3.85%	4.07%	4.27%	4.35%	4.43%	4.53%	4.62%	4.69%	4.76%	4.83%	4.89%
Payout Policy Ratios:													
Dividend Payout Ratio (Dividend/EPS)	23.75%	68.77%	48.64%	46.72%	43.48%	42.75%	42.75%	42.75%	42.75%	42.75%	42.75%	42.75%	42.75%
Total Payout Ratio ((Divs. + Repurchases)/NI)	128.19%	167.70%	48.60%	66.00%	71.91%	69.15%	63.80%	62.91%	62.10%	61.38%	60.70%	60.08%	59.50%

Target Corp

Valuation of Options Granted under ESOP

Current Stock Price	$153.47
Risk Free Rate	4.15%
Current Dividend Yield	2.94%
Annualized St. Dev. of Stock Returns	34.50%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	4	171.61	2.50	$ 26.25	$ 100
Total	4	$ 171.61	2.50	$ 32.22	**$ 100**

Target Corp

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	3.80
Average Time to Maturity (years):	2.50
Expected Annual Number of Options Exercised:	1.52
Current Average Strike Price:	$ 171.61
Cost of Equity:	9.40%
Current Stock Price:	$153.47

Fiscal Years Ending Jan. 28	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Increase in Shares Outstanding:	1.52	1.52	0.76	0	0	0	0	0	0	0
Average Strike Price:	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61	$ 171.61
Increase in Common Stock Account:	**261**	**261**	**130**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share Repurchases ($)	835	1,333	1,299	1,099	1,121	1,143	1,166	1,190	1,213	1,238
Expected Price of Repurchased Shares:	$ 153.47	$ 163.38	$ 173.94	$ 185.18	$ 197.14	$ 209.87	$ 223.43	$ 237.86	$ 253.23	$ 269.59
Number of Shares Repurchased:	**5.44**	**8.16**	**7.47**	**5.93**	**5.69**	**5.45**	**5.22**	**5.00**	**4.79**	**4.59**
Shares Outstanding (beginning of the year)	461.68	457.75	451.11	444.40	438.47	432.78	427.33	422.11	417.11	412.32
Plus: Shares Issued Through ESOP	1.52	1.52	0.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less: Shares Repurchased in Treasury	5.44	8.16	7.47	5.93	5.69	5.45	5.22	5.00	4.79	4.59
Shares Outstanding (end of the year)	**457.75**	**451.11**	**444.40**	**438.47**	**432.78**	**427.33**	**422.11**	**417.11**	**412.32**	**407.73**