Equity Pitch

Group # 1 presentation

July 15th, 2022

Recommendation

We recommend shorting Target (TGT)

Company Background

Background

- **Industry:** Consumer Defensive, Discount Stores
- **TTM Financials:** $106.98B Revenue; $10.265B EBITDA
- **Market Cap:** $68.78B, **Enterprise Value:** $68.82B
- **TTM Multiples:** 12.13 P / E; .64x EV / Revenue; 6.7x EV / EBITDA

Retail Channels:	(% of Revenue)
- Storefront	(96.4%)
- Online @ Target.com	(3.6%)

TARGET

Investment Thesis

The stock is priced imperfectly because:

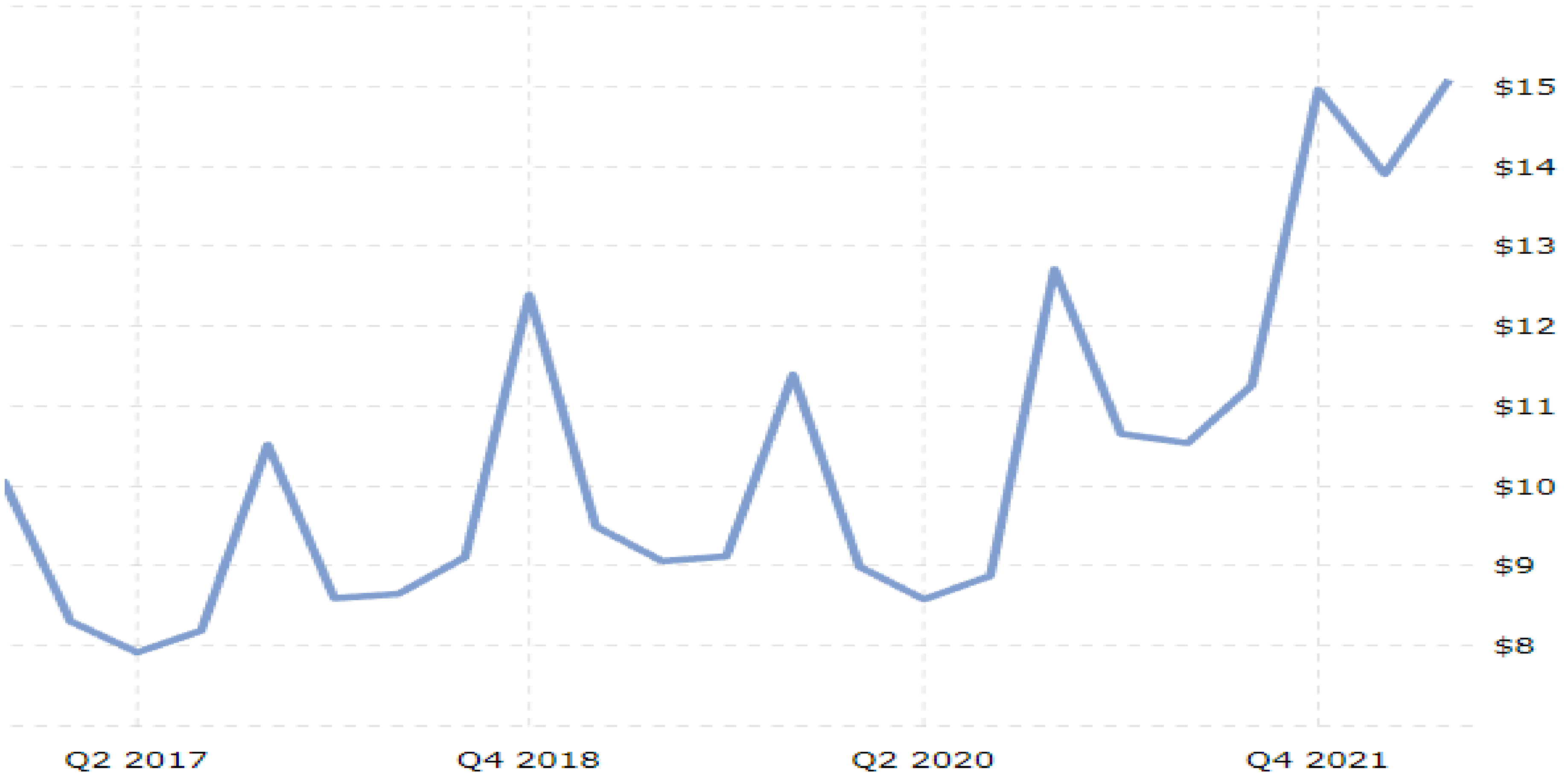
1) Excess inventory, including markdowns and order cancellation, will continue to weigh on margins ahead of the Fall and Winter seasons.

2) The company is unlikely to match the online retail environment which its competitors already possess and fails to accumulate the needed digital growth.

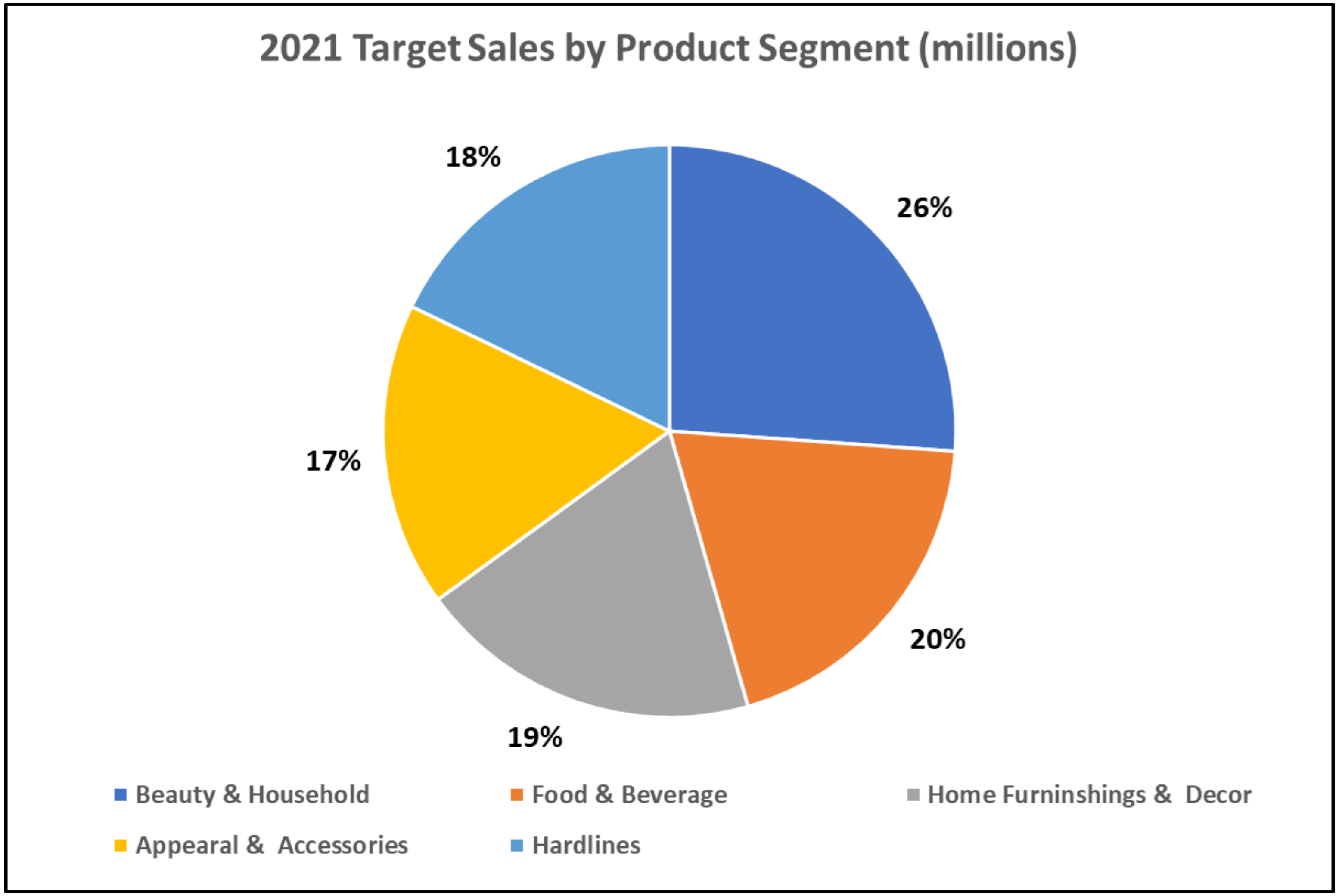
3) Market expectations for their new store outreach and flexibility to be a core factor in increased sales and margins is inaccurate, as consumer confidence has been decreasing due to inflation and the company is additionally faced with higher labor and shipping costs, which do not see short term decline.

Target Inventory (billions)

43% YoY increase of Q1 2021-2022



Product Diversification



Valuation

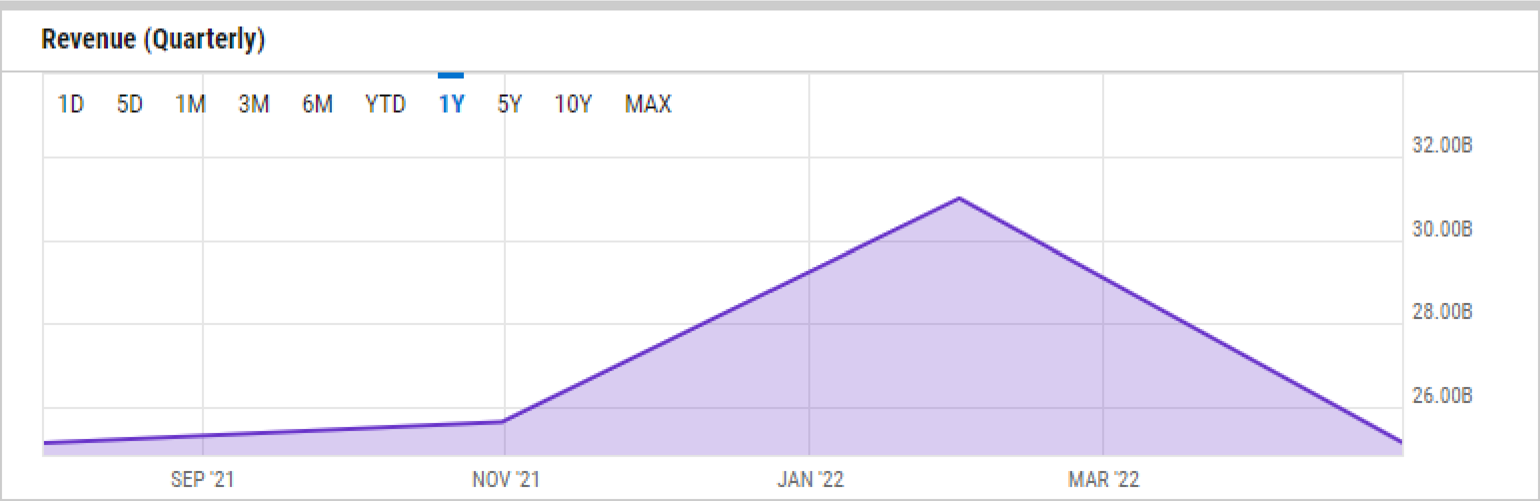
Cash Flow Problem

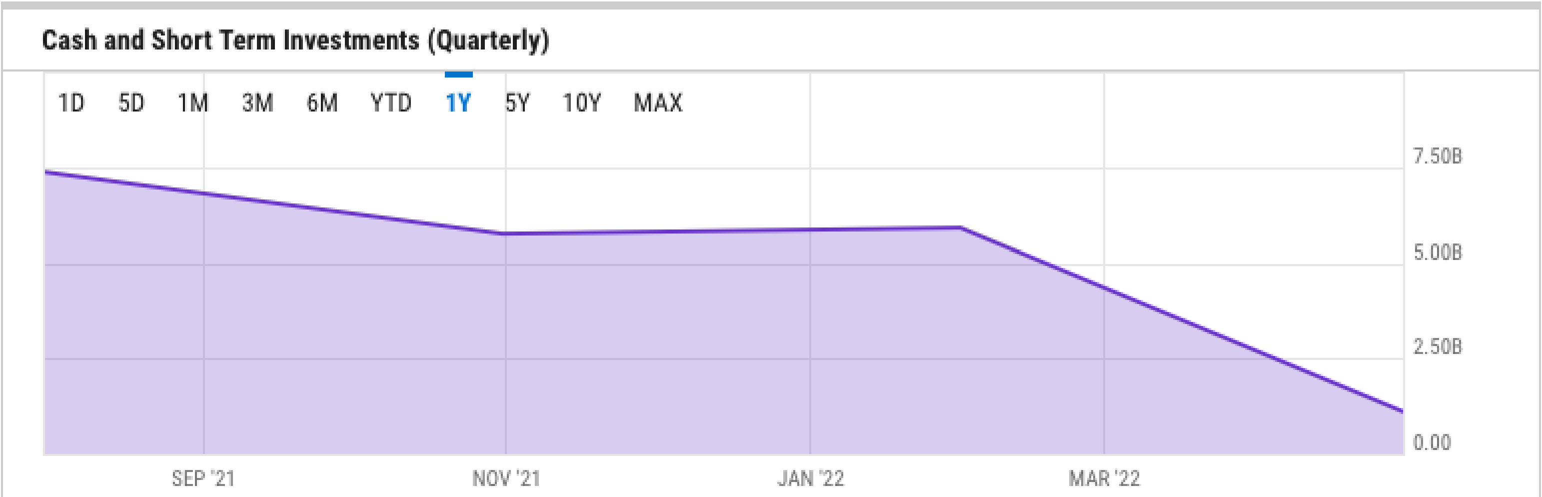
Account	2018	2019	2020	2021	2022
A/R - Million of $	0	0	498	504	518
A/P - Billions of $	8.67	9.76	9.92	12.86	15.48
Inventory - Billions	8.597	9.497	8.992	10.65	13.9
Short Term Investments	2.634	1.556	2.577	8.511	5.911

- Financial analysis shows their inventories are increasing, their account receivables are increasing, and the account payables are increasing.

- In order to combat this storm, they are using short-term investments to stay afloat financially.

Valuation





Key Ratios

Debt/Equity	1.34
LT Debt/Equity	1.20
Quick Ratio	.10
P/E	12.13
Forward P/E	11.89

Catalyst

1) Target has increased their dividend four straight years at a rate of 8-cents per year. The reason for this is to make their stock more attractive despite the **dire cash flow** and demand problem they are facing currently.

2) They are trying to entice their investors with a higher return despite the higher risk that is occurring. Therefore, we anticipate that Target will **announce a decrease** in their dividends or halting their dividend in their next declaration announcement.

3) We anticipate that the data from the CPI that is to be released will be negative and will **initiate a sell off further**.

Risk Factors

Risk 1: TGT dramatically expands its operations with national brand partnerships and additional sortation centers.

Risk 2: Their digital transformation outpaces and outcompetes the transformations of similar retail and other providers, such as AMZN.

Risk 3: Improved sales and reach through diversified store types across the United States.

Risk Factors

Worst-Case Scenario: A combination of near-term enhanced digital outreach, greater reach of operations, and increased stores, as well as an improvement to margins through a decrease in SG&A, could potentially significantly increase the stock's price if paired with a large surplus of consumer demand for the upcoming seasons.

Mitigations: We could mitigate these risks by purchasing call options, shorting competitors attempting to hold digital dominance, or longing a retail fund or ETF.

Trader_Tactics_Ryan published on TradingView.com, Jul 13, 2022 17:27 UTC-7
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TGT
-45% drop from all-time high
-25% to -30% drop expected from current price levels
USD
300.00
280.00
260.00
240.00
220.00
200.00
180.00
160.00
145.44
120.00
110.00
100.00
80.00
60.00
2018
2019
2020
2021
2022
2023
2024
2025
2026
TradingView

Summary

1) We strongly recommend to SHORT TGT due to:
    a) Increasing inventory levels
    b) Macroeconomic effect on demand
    c) Inefficient ability to succeed in the digital environment compared to retailers and competitors.

2) Paired with an inability to perform well for their attractive dividend, we expect significant drawdown and limited grounds for recovery in the next 6-12 months.