Target Corp – 5-Year Financial Forecast & Valuation
Comprehensive Financial Modeling with economic factors Impact & Scenario Analysis
Historical Performance | Current Financials | Future Forecast | Valuation | Trade Policy Risk

I.   Introduction

With all the recent changes in tariff policies and the ongoing political shifts, the economy is facing some real challenges as industries try to adapt to new trade conditions. The retail and grocery sectors haven't been immune either as customer behavior has shifted noticeably since these policies came into effect. Target, being a major player in retail, has seen a sharp drop in sales partly because of these tariffs. As a finance student, I'm really interested in understanding just how much political and tariff changes can impact companies like Target.That's why I built a detailed financial model covering eight key financial statements which including the Income Statement, Balance Sheet, Cash Flow, Net Working Capital, Fixed Assets, Equity, Shares Outstanding, Debt & Interest, and even a Discounted Cash Flow (DCF) valuation.

The model is based on Target's historical data up to fiscal year 2023, and I used realistic assumptions to forecast revenue growth, gross margins, SG&A as a percentage of revenue, and effective tax rates. From there, I projected the company's performance over the next five years. On top of that, I added a regression analysis to explore how tariff changes relate to Target's cost of revenue, giving some concrete insight into how these policy shifts might impact operational costs.

In addition to the financial modeling and regression analysis, I also developed an interactive Tableau dashboard to visualize key performance metrics and scenario analysis over the 5-year forecast period

II.   Executive Summary

I project that Target's revenue for fiscal year 2026 (ending January 2026) will grow modestly by approximately 0.4%. Gross margin is expected to decline by 30 basis points annually from the current estimate of 27.6%, as reported in Target's latest 10-K. As a result, the model forecasts a decline in net sales, increased cost of revenue, higher depreciation, and a corresponding drop in net income. Based on these assumptions, earnings per share (EPS) is expected to decrease significantly, while dividends are projected to grow at an annual rate of 7.2%.

To assess the impact of external economic factors on profitability, I constructed both simple and multiple regression models using forecasted gross profit as the dependent variable. The simple regression, which included only tariff rates as the independent variable, yielded an R^2 of 0.24, indicating limited explanatory power. To enhance model accuracy, I developed a multiple regression that incorporated the inflation rate and a binary variable representing trade policy liberalization. This improved the model's R^2 to 0.70, suggesting a more robust fit.

The regression output showed that tariffs have a negative impact on gross profit, with a coefficient of -1,582. This indicates that a 1% increase in tariff rates is associated with a $1.582 million decrease in gross profit, holding other factors constant.

To support and communicate the findings more effectively, I created an interactive Tableau dashboard. This visualization includes key trends such as revenue growth, gross margin compression, cost of sales variation, and EPS projections under various tariff scenarios. Users can interact with filters to view performance by year, variable drivers, and economic conditions.

III. **Data Source**
   a. Primary Resources:
      - Target Reports:
         - Target Annual Financial Report K10 (2023-2024)
         - Target Q1 2025 Earnings
      - Market Reports:
         - Yahoo Finance
   b. Secondary Resources:
      - Historical Market Data
      - Bureau of Labor Statistics
      - Federal Reserve publications

IV. **Methodology**
   a. Statements Template
      - Vertical Analysis approach is applied to conduct Income Statement
      - Determined interlinked between financial statements
      - Create Excel sheet with brainstorm structure, framework of each statements
   b. Data collection
      - Manual extract data from sources for historical data field in each statements
      - Organized dataset with structure format
   c. Forecast Assumption
      - Made assumption about step functions of several factors that affect corporate performance based on currently scenario, policies, regulations
      - Forecast data of next 5 years base on steps function assumption
   d. Financial Modeling
      - Develop cash flow, DCF (Discounted Cash Flow) analysis
   e. Validation
      - Compare model outputs against historical data to assess accuracy.
      - Create "Balance Check" mechanism in Balance Sheet to double check that final balance of its is 0

V. **Key Insight**
   a. Revenue Growth, Gross Margin Projection

Assuming the new "Liberation Day" tariffs are long-term, FY 2025 revenue growth is projected to drop to -1.3% from -0.8% in FY 2024, due to higher costs and reduced customer demand. However, from FY 2026 to FY 2030, growth is expected to recover, increasing annually by 0.7%, as Target adapts through new suppliers and strategic measures. Historical data shows Target's resilience, with revenue growth improving from -1.6% in FY 2023 to -0.8% in FY 2024, indicating its ability to rebound from downturns. Gross Margin also will drop from 28.2% to 25.5% with an annual step function of 0.5%.

| Ratios & Assumptions	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	Step Function
Revenue Growth		-1.6%	-0.8%	-1.3%	-0.6%	0.1%	0.8%	1.5%	0.7%
Gross Margin	24.6%	27.5%	28.2%	25.5%	26.0%	26.5%	27.0%	27.5%	0.5%
SGA % of Revenue	18.9%	20.0%	20.6%	19.0%	19.2%	19.4%	19.6%	19.8%	0.2%
Other non-operating income/(expense)	48	92	106	-	-	-	-	-	-
Effective Tax Rate	18.7%	21.9%	22.2%	23.5%	22.5%	21.5%	20.5%	19.5%	-1.0%

b. Profitability Analysis

From the visualization dashboard, the relationship between revenue growth and net income change does not appear to show a strong correlation. Over the next five years, even though revenue growth is projected to follow a stable exponential trend, the forecasted net income is not expected to grow at the same rate. This trend can be attributed to the rising costs associated with global tariffs and higher logistics expenses. While Target's revenue is expected to increase due to strategies adapting to new market conditions, the overall cost of revenue will rise, limiting the growth of net income relative to revenue.
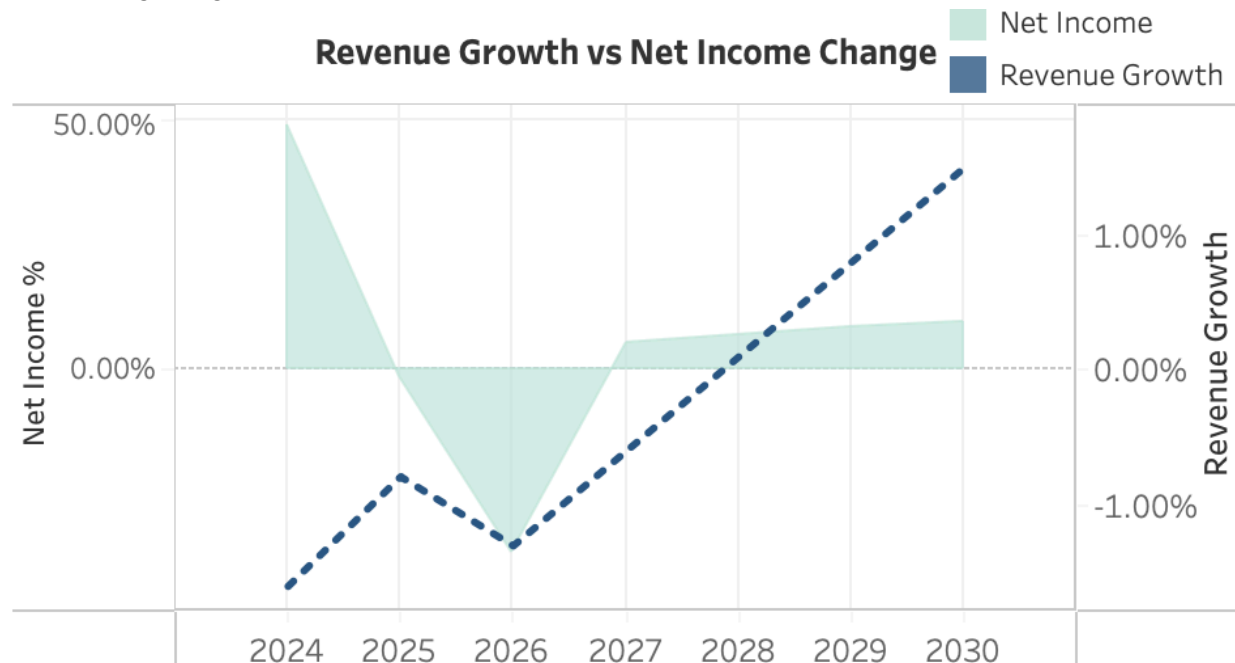
c. Financial Position

To gain a comprehensive understanding of Target Corporation's financial position, I created a dashboard illustrating the accounting equation—equity, total assets, and total liabilities—from FY2023 to FY2030. The projections indicate that total liabilities are expected to remain relatively stable, with a modest increase projected in FY2025. Conversely, total assets are forecasted to decline gradually on an annual basis. A similar trend is observed for equity, which is projected to decrease year over year. These patterns suggest potential challenges in maintaining asset growth and equity levels, potentially due to external economic factors or operational strategies. The dashboard provides a clear visualization of these dynamics, offering valuable insights into Target's long-term financial health.

Balance Sheet
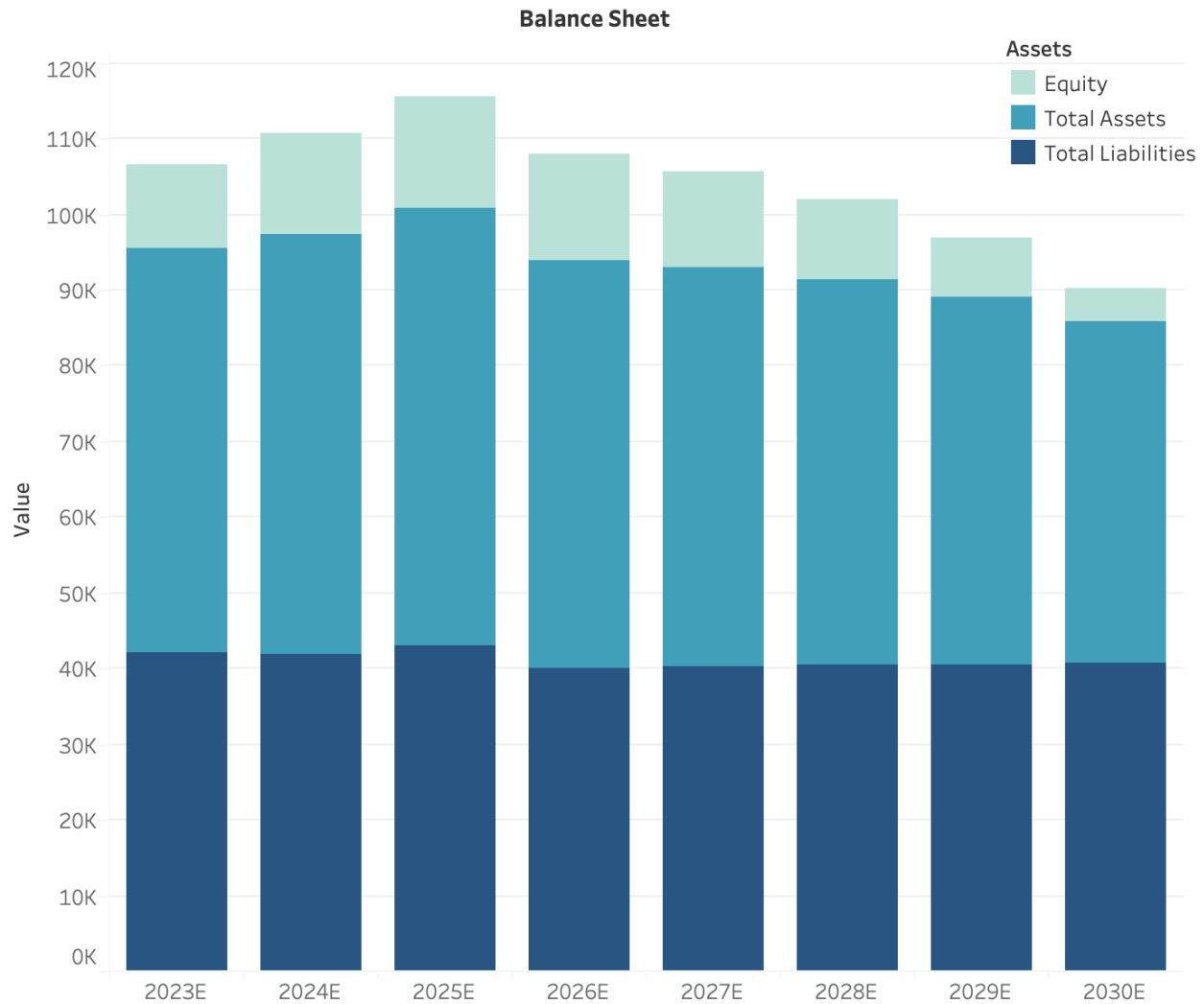
d. Investment Potential

A discounted cash flow (DCF) model was developed to evaluate Target's financial potential, with the Weighted Average Cost of Capital (WACC) applied to estimate an equity value per share of approximately $135. Scenario analysis was conducted under base, worst, and best-case assumptions to assess potential risks and opportunities, with a Tableau dashboard visualizing these outcomes. The analysis reveals that Target's current market price is undervalued by approximately 28% compared to the DCF valuation. This suggests a favorable opportunity for investors to buy Target stock.