

# TARGET EQUITY ANALYSIS



# Agenda

1. Recommendations
2. The Economic Environment
3. The Industry Environment
4. Company Analysis
5. Final Recommendations
6. Q&A



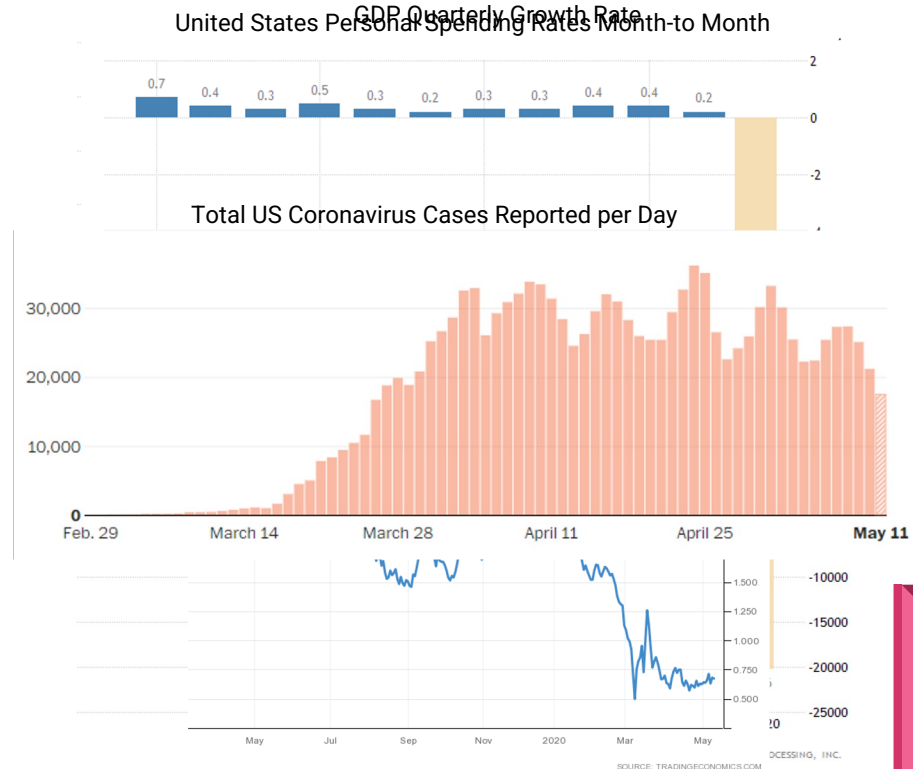
# Recommendations

	
Company	Target Corporation
Ticker	TGT
Current Price	\$120.18
Valuation Price	\$133.27
Recommendation	Buy

# Economic Environment: Spring 2020

## Key Economic Indicators:

1. GDP Growth
2. Jobs Gained/Lost
3. Personal Spending
4. Interest Rates
5. Corona Virus Cases - US

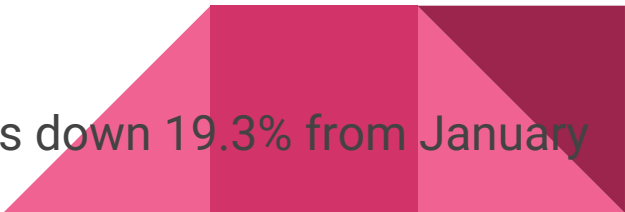


# Economic Environment: Spring 2020

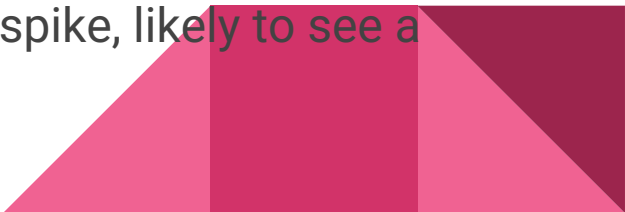
## Additional Indicators:

1. Consumer Confidence
2. Unemployment Rate
3. Personal Saving
4. Consumer Price Index (CPI)
5. New Home Sales

## Outlook:

1. CCI dropped from 101 in February to 71.8 in April
  2. Unemployment up to 14.4% from 3.5% in February
  3. Consumers saving more money - up to 13.1% of disposable income. Highest since 1981
  4. CPI down .42%
  5. New Home Sales down 19.3% from January
- 

# Economic Conclusions

1. As a result of the global pandemic Covid-19, economic growth has been severely damaged both in the short-term and long-term
  2. Record high unemployment rate (~20%) is indication how badly individuals personal incomes are hurting
  3. With many consumer goods stores closing for the short-term, consumers do not have anywhere to enter the economy and thus are saving at an extreme rate, as also seen in consumer spending.
  4. Need to watch for states reopening and loosening Covid-19 measures and how cases develop in those areas. If we see second spike, likely to see a recession in economic growth again.
- 

# Industry Analysis

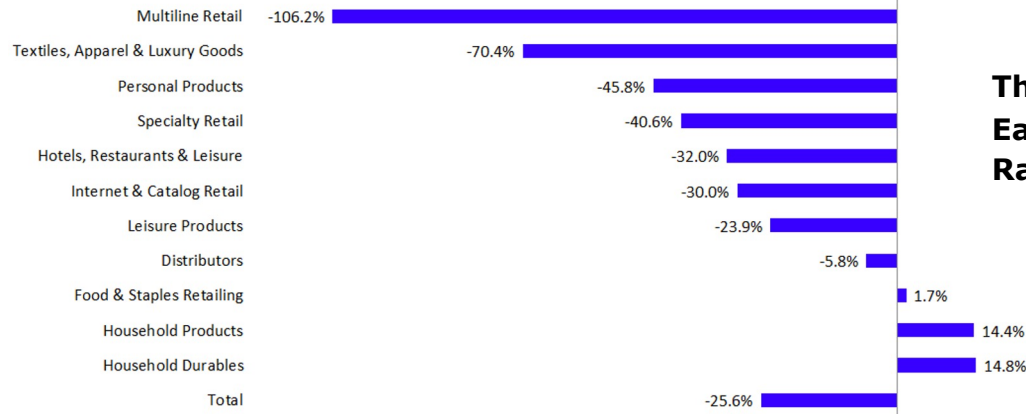
## Different outlooks for different industries

	Men's	Women's	Family	Lingerie	Accessories	E-Comm
Size (\$B):	8.5	\$ 37.5	115.7	19.1	16.5	486.4
Est. Annualized growth:	-2.5%	-2.8%	+2%	+1.8%	+2.6%	+9.1%



# Industry Analysis

1. Target serves mature markets in a phase of consolidation
2. E-Commerce growth might compensate for declining categories
3. Luxury segments (or higher priced, niche items in general) have mostly performed better than clothing staples
4. FX, Liquidity, and Regulatory concerns affect all three firms



**The Retail  
Earnings Growth  
Rate - Q1 2020**





# Company Analysis - Target Corp.

## Agenda

1. Management and Corporate Governance
2. Strategy and Positioning
3. Red Flag Analysis
4. Risks and Contingencies
5. SWOT Analysis
6. Ratio and Trend Analysis
7. Valuations
8. Market Consensus
9. Recommendation

<p>Financial</p> <p>Market Cap: \$57.895B Revenue: 78.112B Net Margin: 4.2%</p>	<p>Revenue Mix</p> <p>Apparel and Accessories: 14.304B Beauty and household essentials: 20.616B Food and beverage: 15.039B Hardlines: 12.595B Home furnishings: 14.430B</p>
<p>Operations</p> <p>Number of Stores: 1,868 Store Sq. Feet: 240 million Number of Employees: 368,000 million</p>	<p>Global Coverage</p> <p>Nearly all revenues are generated within the U.S.</p>

# Target Corp. - Management and Governance



## Board of Directors

- Roxanne Austin, President
- 13 member board
- 9 industries represented

## Executive Leadership

- Diverse 12 member leadership (7 men, 5 women)
- Brian Cornell, Board Chairman and CEO



## Corporate Governance

- Board Committee's include - Audit & Finance, Governance, Human Resources & Compensation, Infrastructure & Investment, and Risk & Compliance.





# Target Corp. - Strategy and Positioning

## Financial Strategy

- Invest in opportunities to profitably grow business and create sustainable long-term value, while maintaining current operations and assets.
- Maintain a competitive quarterly dividend and seek to grow it annually.
- Return any excess cash to shareholders by repurchasing shares within the limits of credit ratings goals.

Industry Leading Ratios: Net Margins (4.2%) Operating Margin (6.0%) ROA (7.8%)

Product Offering	Omni-Channel Approach	Distribution Centers	Highlighting growth via guest experience
Offers everyday essentials and fashionable, differentiated merchandise at discounted prices.	Brick & Mortar, Online Sales, Franchise agreements.	Distribution network mix allows for reduced shipping costs, high product availability and fast delivery times.	Store remodeling, new owned and exclusive brands, smaller stores format, and same-day service.



# Target Corp. - Red Flag Analysis

<b>Qualified v Clean Accounting</b>	<b>Clean Audit Opinion</b>
<b>Accounting Practices</b>	<b>No Changes</b>
<b>Accounting Policy</b>	<b>LIFO and Retail Inventory Management (RIM)</b>
<b>End of Accounting Period Events</b>	<b>Valuation of Receivables</b>
<b>Non-recurring Income &amp; Restated Financials</b>	<b>None that were material</b>
<b>Account Classifications and Reporting Periods</b>	<b>January 31st</b>
<b>Segment Reporting</b>	<b>Single Segment Reporting</b>
<b>Corp Acquisition and Investment in Securities</b>	<b>Share repurchase program. Investment in Casper Sleep (Impairment)</b>
<b>Quality of Earnings</b>	<b>Repurchase Program Increasing Deferred Tax Liability 2.4B in Operating Lease Arrangements 2019 Accounts Payable Increase</b>



# Target Corp. - Risks and Contingencies

Risks	Contingencies
Brand/Reputation	Market differentiation and sales channel adoption; CSR efforts
CAPEX ROI	Consistently re-invest to improve guest in-store experience
Supply Chain Risks	Develop ongoing vendor partners and create new in-house brands
Access to Capital	Maintain strong credit rating and operating efficiency
Product Safety and Sourcing	Vertically align supply chain to mitigate reduce third party touch points (Shipt)
Consumer Protection	Data breach in 2013; Improvement in IT controls and compliance
Seasonality	Offer year round promotions and loyalty programs



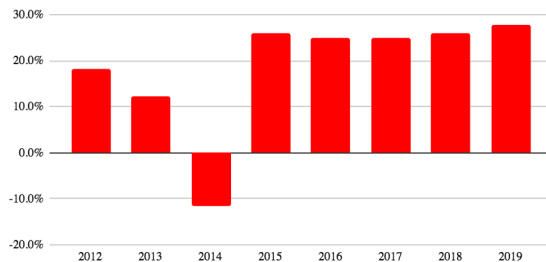
# Target Corp. - SWOT Analysis

<b>Strengths</b> <ul style="list-style-type: none"><li>1. Multi-Channel Sales</li><li>2. Inventory Turnover Ratio</li><li>3. Revenue Growth</li><li>4. Net Profit Margin</li></ul>	<b>Weakness</b> <ul style="list-style-type: none"><li>1. Lack of global growth</li><li>2. Lawsuits and Security</li><li>3. Liquidity Position</li></ul>
<b>Opportunity</b> <ul style="list-style-type: none"><li>1. Global expansion</li><li>2. Emphasis on Digital Channel Sales</li><li>3. Launch of Store Brand</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>1. Continuing of Covid-19</li><li>2. Intense Competition</li><li>3. Third Parties and Supply Chain Risks</li></ul>

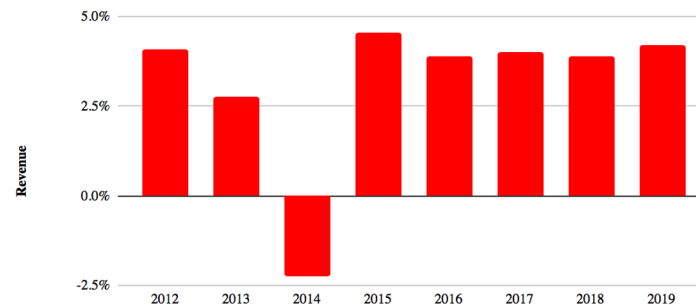


# Target Corp. - Ratio and Trend Analysis

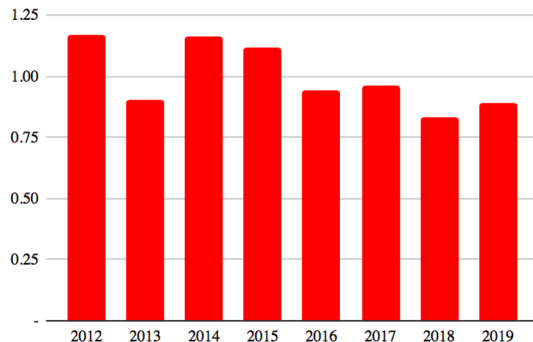
**ROE**



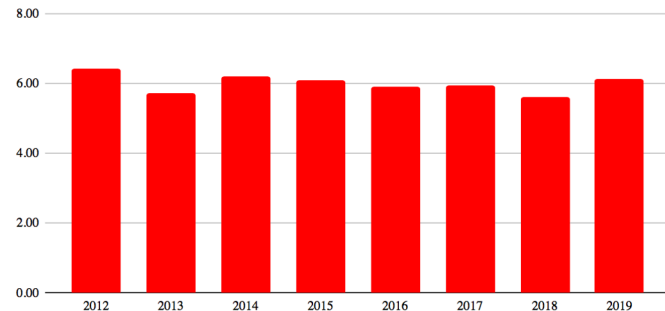
**Net Profit Margin**



**Current Ratio**



**Inventory Turnover**





# Target Corp. - DCF Analysis

## Key Assumptions

1. Used Averaged beta because COVID-19 increased the overall uncertainty of economic conditions in the future
2. Revenue model is by different merchandise revenue sources
3. Covid-19 will have negative impact on 2020 sales, COGS and SG&A
4. Assume higher growth on Household essentials and Food, lower growth on hardline, and no growth on apparel and Decor.
5. 7.4% Discount rate, 3.0% Terminal Growth

## Sensitivity Analysis

		Terminal Growth Rate							
		133.27	2.25%	2.50%	2.75%	3.0%	3.25%	3.50%	3.75%
Cost of Equity	5.9%		\$165.61	\$176.62	\$189.41	\$204.43	\$222.33	\$244.02	\$270.84
	6.4%		\$145.12	\$153.40	\$162.83	\$173.65	\$186.22	\$200.98	\$218.56
	6.9%		\$129.09	\$135.51	\$142.71	\$150.84	\$160.10	\$170.74	\$183.09
	7.4%		\$116.19	\$121.30	\$126.96	\$133.27	\$140.35	\$148.34	\$157.44
	7.9%		\$105.60	\$109.74	\$114.30	\$119.32	\$124.88	\$131.08	\$138.04
	8.4%		\$96.74	\$100.16	\$103.89	\$107.97	\$112.44	\$117.38	\$122.84
	8.9%		\$89.23	\$92.09	\$95.19	\$98.56	\$102.22	\$106.23	\$110.63

Worst Case: \$ 101

1. Recession
2. Low consumer confidence
3. Online competition

Base Case: \$ 133

1. Affected by COVID-19 but recover
2. Consumer Spending shift toward DIY

Best Case: \$ 189

1. Growing Demand on groceries
2. Higher margin on store brands





# Target Corp. - Comparisons

## VALUATION MULTIPLES

Company Name	Ticker	Recent Price	Price / Book	Price/Sales			P/E			PEG			EV/EBITDA		
				FYR1	FYR2	FYR3	FYR1	FYR2	FYR3	FYR1	FYR2	FYR3	FYR1	FYR2	FYR3
Amazon	AMZN.O	\$2,379.61	19.12x	3.44x	2.92x	2.52x	126.23x	63.49x	44.02x	3.71x	1.87x	1.29x	25.96x	18.83x	15.18x
Walmart	WMT.N	\$122.94	4.67x	0.64x	0.63x	0.61x	24.37x	22.69x	21.15x	4.29x	4.00x	3.72x	11.80x	11.47x	11.12x
Costco	COST.OQ	\$305.94	8.86x	0.83x	0.78x	0.72x	35.55x	32.81x	30.03x	5.48x	5.06x	4.63x	19.28x	17.89x	16.60x
Best Buy	BBY	\$78.63	5.82x	0.50x	0.47x	0.45x	17.64x	13.41x	11.41x	2.23x	1.70x	1.44x	8.14x	6.89x	6.53x
Lowe's	LOW	\$114.23	43.73x	1.19x	1.15x	1.11x	19.48x	16.62x	14.33x	1.20x	1.02x	0.88x	13.04x	11.95x	11.22x
Macy's	M	\$5.37	0.26x	0.09x	0.08x	0.08x	-9.69x	3.78x	3.47x	0.66x	-0.26x	-0.24x	5.93x	3.20x	3.03x
Kroger	KR.N	\$33.34	3.03x	0.21x	0.20x	0.20x	13.27x	13.40x	12.78x	2.13x	2.15x	2.05x	6.72x	6.72x	6.62x
Gap	GPS	\$8.10	0.91x	0.22x	0.20x	0.20x	18.00x	6.26x	8.00x	-1.11x	-0.39x	-0.49x	3.12x	2.03x	2.29x
LVMH	LVMUY.PA	\$376.81	4.80x	3.89x	3.35x	3.12x	33.67x	25.36x	22.47x	2.46x	1.85x	1.64x	15.34x	19.37x	14.53x
Target	TGT	\$115.83	4.89x	0.71x	0.70x	0.68x	24.69x	17.21x	15.95x	3.65x	2.54x	2.35x	11.24x	9.22x	8.95x

Average	10.13x	1.22x	1.09x	1.00x	30.95x	21.98x	18.63x	2.34x	1.89x	1.66x	12.15x	10.93x	9.68x
Median	4.85x	0.68x	0.66x	0.65x	21.92x	16.92x	15.14x	2.35x	1.86x	1.54x	11.52x	10.34x	10.03x

Average	\$ 239.91	\$ 198.63	\$ 180.42	\$ 170.41	\$ 145.16	\$ 147.90	\$ 135.31	\$ 74.33	\$ 86.07	\$ 81.63	\$ 125.19	\$ 137.24	\$ 125.27
Median	\$ 114.78	\$ 110.10	\$ 110.04	\$ 109.97	\$ 102.84	\$ 113.84	\$ 109.96	\$ 74.50	\$ 84.72	\$ 75.87	\$ 118.74	\$ 129.91	\$ 129.89

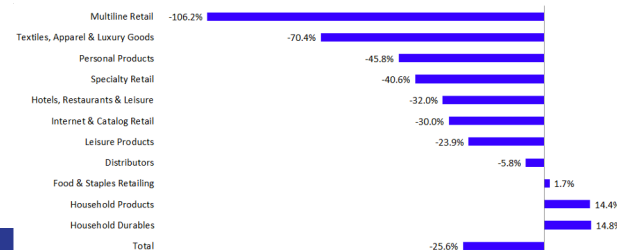


# Recommendation

Recommendation Summary	
Mean Recommendation (this week):	2.2
Mean Recommendation (last week):	2.2
Change:	0
Price Target Summary	
Mean Target	\$121.72
Median Target	\$121.00
High Target	\$150.00
Low Target	\$83.00
No. of Analysts	28

## BUY

Covid-19 has done tremendous damage globally to the retail industry, however, consumer staples segment is relatively strong during economic downturns. Target positioned itself well in the pandemic and had potential to harvest larger sales thanks to people's shopping habit shifted after the country lock-down. Its solid financial and efficiency stance together with its well executed strategy will help Target stay competitive in the unprecedented time.



Questions?





# Notes

## RATIO ANALYSIS

Company Name	Ticker	Gross Margin	Operating Margin	Net Margin	ROA	ROE	Asset Turnover	Inventory Turnover	A/R Turnover	Debt/E	LTD/TC	Quick Ratio	Current Ratio	Interest Coverage
Amazon.com Inc	AMZN.O	41.0%	5.2%	4.1%	6.0%	22.0%	1.45	8.79	15.07	67.4%	39.0%	0.86	1.10	9.09
Walmart Inc	WMT.N	24.7%	3.9%	2.8%	6.2%	19.2%	2.30	8.90	83.39	72.9%	35.3%	0.22	0.79	8.07
Costco Wholesale Corp	COST.OQ	13.0%	3.1%	2.3%	8.4%	25.9%	3.54	11.85	95.32	47.5%	24.2%	0.52	1.01	31.58
Best Buy Co Inc	BBY	23.0%	4.6%	3.5%	11.4%	48.1%	3.06	6.35	40.33	36.5%	26.5%	0.46	1.10	32.03
Lowe's Companies Inc	LOW	32.0%	8.8%	5.9%	12.1%	158.9%	1.95	3.82		979.0%	78.8%	0.14	1.01	9.16
Macy's Inc	M	38.2%	3.5%	2.2%	4.5%	14.1%	1.26	2.90	62.62	65.6%	34.5%	0.28	1.18	5.67
Kroger Co	KR.N	22.1%	2.0%	1.3%	4.3%	21.7%	2.93	13.68	74.23	163.6%	53.5%	0.27	0.76	4.05
Gap Inc	GPS	37.6%	3.5%	2.3%	6.8%	21.7%	1.51	4.78	48.54	37.7%	27.4%	0.74	1.41	12.25
LVMH Moet Hennessy L	LVMUY.PA		21.0%	13.4%			0.63	1.38	10.20	69.0%	24.3%	0.57	1.17	25.50
Target Corp	TGT	29.8%	6.0%	4.2%	7.8%	28.5%	1.86	5.93	75.76	97.2%	48.6%	0.27	0.89	8.78
average		28.9%	4.3%	3.1%	7.5%	41.4%	2.25	7.63	59.93	183.8%	39.9%	0.44	1.05	13.99