**Name: Adam Nutt**

**Part 3** Financial Analysis Case relates to the textbook Modules 5, 6, 7 and 8.

**Instructions:** Use this Word Document as your template to complete Part 3. Answer the questions under each of the applicable areas in black font and provide information for each company. Upload your completed Part 3 template by **clicking** on the **Part 3 Financial Analysis Case link.** Please type your name at the top of this page in the Name area and save your file with the initial of your first name and your last name. Use single space with proper English. Please use this template to answer the requirements in the order below. Use the 10-K Document from the SEC EDGAR database for each company to answer the following questions for each company. You can use direct references from the reports, but you must explain or comment in your own words. Do **not use** the interactive Data file to answer Part 3 of the Financial Analysis Project. The author of the text uses the reference of footnotes to the financial statements. Many companies use the terminology notes to the financial statement, which is a synonymous term to footnotes to the financial statements. It is important for you to understand that the notes to the financial statements are an integral part of the audited financial statements. Do not ignore the notes to the financial statements in your analysis.

Dollar Tree, Inc. (Ticker DLTR) for year ended January 30, 2021 Direct link to 10-K January 30, 2021 <https://www.sec.gov/ix?doc=/Archives/edgar/data/935703/000093570321000014/dltr-20210130.htm>

Target Corporation (Ticker TGT) for year ended January 30, 2021 Direct link to 10-K January 30, 2021 <https://www.sec.gov/ix?doc=/Archives/edgar/data/27419/000002741921000010/tgt-20210130.htm>

**Requirements: The questions are in bolded black font. Please respond below each question.**

1. Examine revenue and related accounts. Revenue is the largest item on the income statement, so we need to assess it on a quantitative and qualitative basis.

**a. Read the management’s discussion and analysis (MD&A) section of the 10-Ks, which is found in Item 7 of the table of contents. Explain how the companies’ senior managers explain net sales or revenue in the most recent fiscal year. Provide the page number(s) you are using from the 10-K as your reference to this question. Also, discuss at least two other items of interest discussed in the MD&A for each company.**

Target states on page 17 of the Financial Summary that total revenue increased 19.8%, driven by comparable sales which had increased 19.3% due to a 15% increase in average transaction amount. Comparable store and digital originated sales grew 7.2% and 145% respectively.

Two things I found interesting were their dividend payouts and share repurchases. Target's share repurchasing increased considerably and just personally I’m hesitant to endorse companies buying back stock when I feel other needs should be more pressing to management. Target pays a pretty good dividend so this would be encouraging for investors and potential investors given their trend of the last few years.

On page 17 of the Results of Operations, Dollar Tree states that the 8% increase in net sales was a result of comparable store net sales increases in both Family Dollar and Dollar Tree segments and $852.4 million at new stores.

Two points of interest for me were that the company's shrink rate decreased by 15 points and markdown costs decreasing. Having worked in management for a retail store, I know how important shrink is. That big of a decrease for stores with a lot of various items, many smaller that can be broken or stolen, this was pretty interesting for me. As for markdown costs, it was that they mentioned uninsured markdown costs for stores affected by civil unrest. Having taken financial classes before I’ve seen this before as an example, but this made a real life connection and brought more understanding to this for me.

**b. Find the footnote or notes to the financial statements on sales revenue recognition and gift card revenue recognition policy if applicable. Provide the page number of the note for each company and how the company recognizes revenue. Also, in your response compare the revenue recognition to each other. Remember that the notes to the financial statements are an integral part of the financial statements, so are part of Item 8 and follow the audited financial statements.**

For Target on page 41 states that sales are recognized net of expected returns as they estimate using historical trends and expectations for future returns. For gift cards, sales are recognized upon gift card redemption which is often within one year of issuance.

On page 53, Dollar Tree states sales are recognized net of estimated returns and sales tax at the time customer tenders payment.

**c. Find the footnote or notes to the financial statements on the operations of the business and segment information. Provide a summary of what the company considers their business and segments. Include a discussion of why segment information is important information. Provide the page number you found this information. Remember that the notes to the financial statements are an integral part of the financial statements, so are part of Item 8 and follow the audited financial statements.**

On page 40 Target states they operate as a single segment that includes all of their continuing operations.

For Dollar Tree, on page 50 they state operations are conducted in two reporting business segments of Dollar Tree and Family Dollar. This segment information is important more detail for the total report as different segments may operate differently and have different successes and shortcomings that need to be addressed that would be reflected.

2. Find the DLTR and TGT credit ratings for long-term debt using the following resources: Moody’s and Standard and Poor’s.

You will need to register. You do not need to pay for these services.  These are the registration websites:

<https://www.moodys.com/registerinfo.aspx?from=Nav_Reg>

<https://www.standardandpoors.com/en_US/web/guest/register>

**a. What are the credit ratings for both companies from each of these agencies in reference to long-term rating? Provide the date of the rating, too. For Standard and Poor’s Global use the local currency long term for the most current related research and credit information.**

|  |  |  |
| --- | --- | --- |
|  | **Moody’s Rating and Date** | **Standard and Poor’s Global Rating and last Reviewed Date** |
| **DLTR** | 9/28/2020, Baa2 | 1/22/2021, BBB |
| **TGT** | 9/29/2017, A2 | 3/19/2021, A |

**b. Explain what the ratings mean based on each agencies credit rating. Read over pages 7-18 to 7-24 in the textbook. Exhibit 7.3 explains the ratings. Based on the ratings which company would you invest in the company’s long term debt issuance? Why?**

For Dollar Tree, their Baa2 rating with Moody's is considered a lower-medium grade and their BBB rating with S&P is also considered lower-medium grade. Target's rating with Moody's is considered upper-medium grade as well as with S&P. Based on these ratings I would invest in Target because they seem less likely to default on their debt than Dollar Tree, according to the ratings.

3. Analyze the inventory account and answer the following questions using the financial statements and notes to the financial statements:

**a. Which financial statement shows merchandise inventories? What subsection of the statement does this account appear? What has been the dollar change from the past year to current year for each company? Make sure you identify the dollar amount change and if it is an increase or decrease.**

|  |  |  |  |
| --- | --- | --- | --- |
| In Millions | **Which financial statement shows merchandise inventories?** | **What subsection of the statement does this account appear?** | **What has been the dollar change from the past year to current year for each company? Make sure you identify the dollar amount change and if it is an increase or decrease.** |
| **DLTR** | **Consolidated Statements of Cash Flows** | **Changes in operating assets and liabilities** | **Dollar Tree went from $13.6 in 2019 to $97.1 in 2020 for a $83.5 increase** |
| **TGT** | **Consolidated Statements of Cash Flows** | **Changes in operating accounts** | **Target went from $505 in 2019 to -$1,661 in 2020 for a $2,166 decrease** |

**b. Using the footnotes or notes to the financial statements identify how the company is costing inventory and the inventory costing method each company is primarily using. What is included in the inventory cost? Provide the page number of the note you are referencing.**

On page 51 of Dollar Tree's notes to the financial statements, they state that cost is assigned to the store inventories using the retail inventory method on a weighted-average basis. They also state costs directly associated with warehousing and distribution are capitalized as merchandise inventories.

On page 44 of Target's notes to the financial statements, they state the vast majority of their inventory is accounted under the retail inventory method using the LIFO method. Inventory cost includes the amount paid to suppliers to acquire inventory, freight costs and import costs.

**c. Compute the average day’s inventory outstanding for the current and past year for each company and show your calculations. Review page 6-13, which shows the formula as (365 times Average Inventory)/ Cost of Goods Sold. To determine the average inventory use the current year and past year inventory divided by 2, since the ending inventory of one year is the beginning inventory of the next year. Cost of Goods Sold is the same thing as Cost of Merchandise Sold. Round to the nearest day. You can find this information on the current 10-K except for the following information for 2019 Inventory for DLTR $3,536 million and TGT $9,497 million. Comment on your results including a comparison of the two companies. You must show your work to earn full credit.**

|  |  |  |
| --- | --- | --- |
| **Round to the nearest day** | **Current year** | **Past year** |
| **DLTR** | (365•((3,427+3,522)/2))/17,721 = 72 days | (365•((3,522+3,536)/2))/16,570.1 = 78 days |
| **TGT** | (365•((8,992+10,653)/2))/66,177 = 54 days | (365•((9,497+8,992)/2))/54,864 = 62 days |

**Comments:**  both companies were able to improve their average day's inventory outstanding from the year prior. Target made the larger decrease of eight days compared to Dollar Tree at six days**.**

**d. Does the company face any inventory related risk? You need to use the 10-K Part 1A Risk Factors for both companies and find at least one risk factor that relates to inventory for each company. Comment on the risk factor you picked for each company. Explain why you picked this risk factor for each company. Provide the page number that you are referencing in this question.**

On page 14, Dollar Tree highlights a potential risk to inventory with shipping disruptions, acknowledging a shortage of shipping containers from China and Asia. I think this is a critical issue for Dollar Tree as this coupled with rising costs within the supply chain limits theory ability to sell certain items at their set $1 price. Family Dollar can, but if the increases are too high, it will negatively impact sales.

On page 8, Target highlights the same supply chain concerns and states possible action necessary would be to raise prices and seek alternative sources of supply. While both risks are identical, what I find interesting is Target has a significant amount of flexibility in how they can react compared to Dollar Tree. They do not have the same limitations in pricing strategies as Dollar Tree.

**e. Compute Days Payable Outstanding (DPO) for the current and past year for each company and show your calculations. Review page 6-15, which shows the formula as 365 times Average Accounts Payable/Cost of Goods Sold. Cost of Goods Sold is the same thing as Cost of Merchandise Sold. Round to the nearest day. You can find this information on the current 10-K except for the following information for 2019 Accounts Payable for DLTR $1,416.4 million and TGT $9,761 million. Comment on your results including a comparison of the two companies. You must show your work to earn full credit.**

|  |  |  |
| --- | --- | --- |
| **Round to the nearest day.** | **Current** | **Past year** |
| **DLTR** | (365•((1,480.5+1,336.5)/2))/17,721 = 29 days | (365•((1,336.5+1,416.4)/2))/16,570.1 = 30 days |
| **TGT** | (365•((12,859+9,920)/2))/66,177 = 62 days | (365•((9,920+9,761)/2))/54,864 = 66 days |

**Comment:** while both improved their days payable outstanding, Dollar Tree is considerably in front of Target in their ability to maintain a lower days payable. I would attribute this to having a lower cost for goods and supplies than Target does**.**

**4. Analyze the net fixed assets (PPE-Property, Plant, and Equipment)—a company may not use the exact wording, but please find the related account and answer the following questions:**

**a. Provide the percentage Property and Equipment, net as a percentage of total assets in the current year from the vertical analysis in Part two. What was the dollar change difference from the previous year for Property and equipment, net? Which financial statement did you look at to find the fixed assets? Discuss the two companies’ percentages and dollar change in PPE from last year.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Property and Equipment, net as a percentage of total assets** | **What was the dollar change difference from the previous year for Property and equipment, net? Also, provide if a decrease or increase** | **Which financial statement did you look at to find the fixed assets?** |
| **DLTR** | 19.89% | It was an increase of $234.5 | Consolidated Balance Sheet |
| **TGT** | 52.45% | It was an increase of $596 | Consolidated Balance Sheet |

**Discuss the two companies’ percentages and dollar change in PPE from last year.**

While both companies saw increases, Target has a much larger share of total assets in property and equipment. In the case of a financial emergency, they don’t have the flexibility to meet timely financial obligations with that large share of fixed assets.

**b. Using the notes to the financial statements, answer the following questions for each company and provide the page number of your reference. What exactly are included in the companies’ property and equipment as listed in the notes to the financial statements? What depreciation method are they using for financial reporting?**

For Dollar Tree, buildings, furniture, fixtures and equipment are listed and they use the straight-line method over their estimated useful life.

Target lists property, equipment and assets acquired under finance leases while also using the straight-line method over the estimated useful life**.**

**c. Are any long-lived assets impaired per the notes to the financial statements for each of the companies? Provide how each company determines impairment of long-lived asset per their notes. Is the impairment charge significant? Provide the page number of the note you are using as a reference.**

On page 45, Target determines assets for impairment when store performance expectations, events or changes in circumstances indicate that the asset's carrying value may not be recoverable. The loss in 2020 was $62 million.

On page 52, Dollar Tree states long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and is measured by comparing the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. The loss in 2020 was $4.6 million.

**d. Did the company buy any fixed assets or capital expenditures during the year using cash? Provide the name of the financial statement you used to determine if the company bought fixed assets for cash, provide the amount purchased in current year, and the section of the financial statement you found this information in along with the label used to show that cash was paid for fixed assets? Companies use different labels when they are purchasing fixed assets, so make sure you do not overlook this cash purchase, which might be worded differently.**

In the statements of cash flow for Target, this is listed under investing activities as cash required for investing activities. That amount is $2,591, but is listed as (2,591).

In the statements of cash flows for Dollar Tree this is listed under cash flows from investing activities as net cash used in investing activities. That amount t is $889.7, but listed as (889.7).

**e. Compute the PPE turnover (sales/Average PPE Assets, net) for the current and past year for both companies? Show your calculations and show two decimal points. Please review pages 6-25 and 6-26. Companies might use different account titles, so you need to be review and make sure you pick the like-kind account. You can find this information on the current 10-K except for the following information for 2019 Net Property and Equipment for DLTR $3,445.3 million and TGT $25,533 million. You need to show your calculation to earn credit. Comment on your results. I am looking for more than a one-sentence comment that I can see from the numbers given.**

|  |  |  |
| --- | --- | --- |
| **Show your calculations and show 2 decimal points.** | **Current** | **Past** |
| **DLTR** | 25,509.3/((4,116.3+3,881.8)/2) = 6.38 | 23,610.8/((3,881.8+3,445.3)/2) = 6.44 |
| **TGT** | 92,400/((26,879+26,283)/2) = 3.48 | 77,130/((26,283+25,533)/2) = 2.98 |

**Comments:**  Target has improved their PPE turnover, but Dollar Tree is in the preferred position with a higher turnover, indicating a lower capital investment. It isn't surprising to see Dollar Tree’s turnover dip as they have increased their investment in fixed assets over last year**.**

**5. Analyze the company’s dividend payment to shareholders. Review EPS and review the trend.**

**a. Provide the financial statement that shows the amount of cash dividends paid in the current year and the section name that dividends paid shows on the statement if applicable. What was the total amount of the dividends paid? Comment on why a company will pay a dividend or not and discuss the trend of dividends being paid out over the current and past years presented in the financial statement for each of these companies.**

|  |  |  |
| --- | --- | --- |
| **In Thousands** | **Name the financial statement that list out dividends paid if applicable and the section name that dividends paid shows on the statement if applicable.** | **Amount of Dividends paid in dollar amount** |
| **DLTR** | Dollar Tree doesn't pay dividends | **$0** |
| **TGT** | Statements of Shareholders’ Investment, under dividends declared | **$1,367** |

**Comment on why a company will pay a dividend or not and discuss the trend of dividends being paid out over the current and past years presented in the financial statement for each of these companies.**

Some companies may not pay dividends as they are growing and want to invest more in that growth, would rather reinvest earnings back into the company or simply cant afford to pay dividends. Dollar Tree has not paid dividends and Target has with a consistent payout in previous years with a slight increase this past year**.**

**b. Which statement can you find the basic and diluted earnings per share (EPS) attributable to the continued operations of the shareholders of the company? What is the basic EPS for the current year? What is the diluted EPS for the current year? Comment on the trend of EPS over the current and past two years and how diluted EPS has been impacted for each company.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Name the financial statement that Shows EPS** | **Basic EPS** | **Diluted EPS** |
| **DLTR** | Consolidated Statements of Operations | 5.68 | 5.65 |
| **TGT** | Consolidated Statements of Operations | 8.72 | 8.64 |

**Comment on the trend of EPS over the current and past two years and how diluted EPS has been impacted for each company.**

|  |  |
| --- | --- |
| **Grading Rubric Part 3** |  |
| **Question 1 a-c** | **5 pts. Each or total of 15 pts.** |
| **Question 2 a and b** | **8 pts. for “a” and 5 pts. for “b” or total of 13 pts.** |
| **Question 3 a-e** | **5 pts. each for a, b, and c and 8 pts. each d and e or total 31 pts.** |
| **Question 4 a-e** | **5 pts. Each for a, b, d and 8 pts. for c and e or total of 31 pts.** |
| **Question 5 a and b** | **5 pts. Each or total of 10 pts.** |
| **Total points** | **100 pts.**  **You will be penalized 20% of the grade if it is turned in after the due date but no later than 48 hours from due date. You will earn a zero for the part of the case if not turned in by the 48-hour late penalty.** |

**I will take off 1/2 pt. for each spelling or grammar error.**

**Academic Honesty Policy:** Each student is assumed to be a mature and responsible adult with high academic and moral standards. There is no place in the business profession or the classroom for dishonesty. Therefore, any student found cheating or presenting material in a dishonest fashion would earn a course grade of “F.”

Examples of presenting material in a dishonest fashion include but are not limited to the following:

* Using solution material that was previously posted in another class or term
* Using a case solution from a previous term and making modifications to this previous case solution
* Using a student's work from a previous or current term

You should not exchange files or solutions with your fellow classmates. You can work with tutors on concepts, but you cannot have a tutor work with you on a specific graded assignment. Remember, it does not matter what type of assignment it is, if you are found cheating you will receive an “F” for the course and Bellevue University will be informed of your actions for further proceedings.