

**Street Takeaways - Target Q4 Earnings**  
**Wednesday, February 25, 2015 10:51:05 PM (GMT)**

- **Overview:**

- Stock closed today up 0.3% following this morning's Q4 earnings release, with a \$0.05 EPS beat coming in ahead of guidance due to a slightly better top-line, margin outperformance, and a favorable tax rate. Comps growth of 3.8% outpaced FactSet consensus by 80bp driven by strong performance in key categories, positive traffic growth of 3.2%, better than expected digital sales, and improving momentum toward the end of the quarter. Analysts were particularly pleased with gross margins of 28.5% coming in 50bp ahead of consensus and representing 90bp of y/y expansion, driven by favorable mix. However, analysts did note that both comps and margins benefited significantly from the lapping of last year's data breach markdowns.
- Reaction to the quarter was generally positive as analysts were pleased to see the company drive a re-acceleration in comps growth, likely signaling share gains over the holiday season. Initial Q1 EPS guidance of \$0.95-1.05 bracketed FactSet consensus \$1.04, while the comps growth target of ~2.0% was roughly in-line with expectations. Analysts were pleased with the solid result and guide and expect investors will be looking for improvements to the overall margin structure to drive longer-term earnings growth, particularly in light of expectations for potential near-term investments to maintain comps momentum.
- Given the company's relatively new management team and recent decision to discontinue its Canadian operations, analysts are now primarily focused on the upcoming Analyst Day on 3-Mar to hear an update on corporate strategy going forward. Most are expecting greater color around efforts to improve traffic trends as well as initial F15 guidance. A quick look at sell-side sentiment shows 25% of firms keeping Buy-equivalent ratings compared to a 49% average for the S&P 500; average price target of \$76 is roughly in-line with current levels.

- **Analyst Commentary:**

- **Janney** analyst David Strasser
  - Believes many good strategic decisions are coming from TGT and expects next week's meeting should be interesting; believes margin structure needs to come down to drive long-term success; expects TGT will guide F15 EPS above their \$4.20 estimate but believes greater near- and medium-term investments will pay off longer-term; believes mix toward apparel/home appears to be in early stages of success; impressed by digital sales growth and promising changes in grocery; believes TGT needs to be competitively priced and dominate the value prop in apparel/home
  - Target is \$71
  - Maintains Neutral rating
- **Sterne Agee** analyst Charles Grom
  - Notes that despite the \$0.01 EBIT level shortfall, quality in Q4 was respectable given the comp and GM upside; believes TGT is squarely focused on both improving foot traffic in stores and frequency online; expects more details on strategy to freshen the store and improve the shopping experience at Analyst Day; concerned that unless there are meaningful SG&A cost levers to pull, these efforts are likely to come at the expense of margins and add uncertainty to long-term EPS
  - Target is \$70
  - Maintains Neutral rating
- **Credit Suisse** analyst Michael Exstein
  - Notes TGT delivered improved performance in Q4 as it lapped the data breach and exited Canada; as mix of store openings shifts towards smaller stores and sales migrate to e-commerce, expects higher costs and expenses are likely to make expense reductions challenging; sees risk for material increase in labor expenses; believes tasks in front of TGT remain substantial in terms of the scale of change and time needed to implement; looking for detail around strategic plans at Analyst Day
  - Target is \$72
  - Maintains Neutral rating
- **UBS** analyst Michael Lasser
  - Notes that comp was driven by a 3.2% increase in transactions, highlighting that

customers are returning to TGT; believes 90bp benefit from digital likely reflects free shipping promotion over the holidays; notes compares were relatively favorable; views Q4 as a solid start to TGT's transformation and believes it is moving along a path toward increased profitability; believes outstanding question is whether TGT can continue its momentum

- Target is \$75
- Maintains Neutral rating
- **Telsey** analyst Joseph Feldman
  - Highlights better than expected Q4 with healthy 3.8% comp; though compare was very easy due to last year's data breach, believes results still reflect solid performance and company's ability to gain market share during the competitive holiday season; encouraged by improved sales trends; believes modest inventory increase reflects solid management
  - Target is \$85
  - Maintains Outperform rating

**Industries:** Retail (Department & Discount)

**Primary Identifiers:** TGT-US

**Related Identifiers:** TGT-US

**Subjects:** Street Takeaways, Street Takeaways - Earnings

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