Target

Submitted to Matthew Krajna

MGF645: Supervised Research- Equities

TGT

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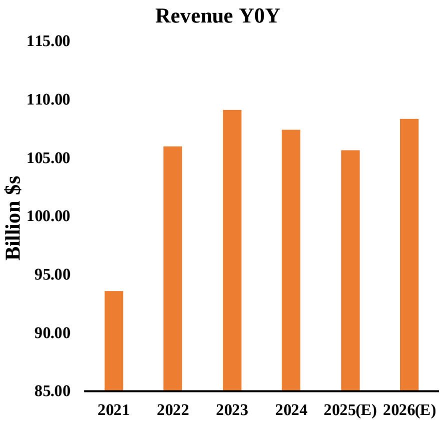

Figure 1 - Source: Company Website

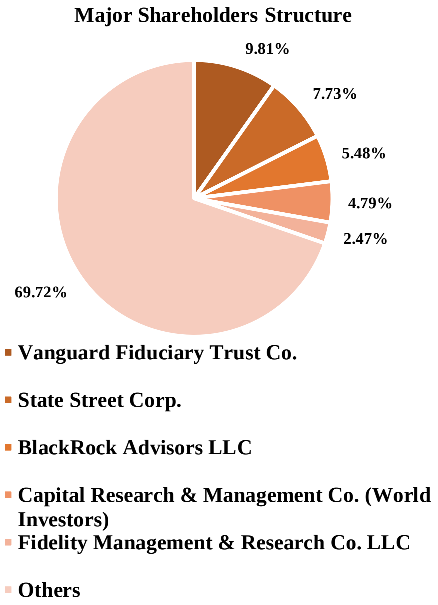

Figure 2 - Source: Market Screener

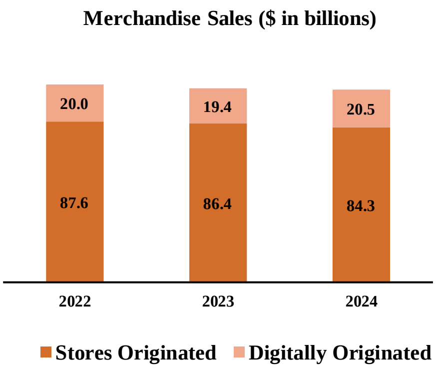

Figure 3 - Source: Company Website

Business Description

Target Corporation, a leading American general merchandise retailer rooted in Minneapolis, Minnesota, traces its origins to the Dayton Company in 1902, launching its first discount store in 1962. Headquartered in Minneapolis, Target operates discount department stores and hypermarkets across the United States, holding the position of the seventh-largest retailer. Notably, in 2022, Target ranked 32nd on the Fortune 500 list by revenue. The company distinguishes itself by offering "upscale, trend-forward merchandise at lower costs," emphasizing style and quality at affordable prices under its "Expect More. Pay Less." brand promise. Target's stores feature a diverse array of products, including apparel, home décor, electronics, groceries, and everyday essentials, catering to a broad customer base.

Properties

Target's real estate portfolio comprises a nationwide network of stores, with significant concentrations in California and Texas. The company achieved nationwide presence in 2018, establishing a diverse geographic footprint across suburban markets, shopping centers, and urban areas. Store formats vary, with standard big-box stores averaging around 130,000–135,000 square feet, featuring expanded grocery sections under the "PFresh" format. To serve urban and college communities, Target introduced smaller format stores in the mid-2010s, typically ranging from 20,000 to 50,000 square feet, offering curated selections. A key feature of Target stores includes in-store services, with most locations housing licensed Starbucks cafés and CVS-operated pharmacies, numbering approximately 1,672 nationwide, along with optical centers, photo services, and quick-service food counters. Since 2006, Target has tailored store layouts, assortments, and décor to align with local community preferences.

Strategy

Target's competitive strategy hinges on distinct merchandising, integrated channels, and operational efficiency.

- **Owned Brands & Product Differentiation:** Target strategically develops and offers nearly 50 exclusive private-label brands across categories, reinforcing its "Expect More. Pay Less." promise and cultivating customer loyalty while achieving margin advantages. Complementing this, Target curates' national brands and secures exclusive designer partnerships, creating a unique merchandise mix that attracts shoppers.

- **Omnichannel Development & Digital Integration:** Target prioritizes a unified shopping experience by integrating its physical stores and digital platforms. The "stores-as-hubs" model is key, enabling efficient order fulfilment and delivery by leveraging local inventory. Digital tools like the Target App, with features such as in-store item scanning, and the Target Circle loyalty program enhance customer engagement and convenience across all channels.

- **Customer Experience & Strategic Partnerships:** Target focuses on creating an appealing in-store environment through ongoing remodels featuring updated layouts and fixtures. Strategic shop-in-shop partnerships, including mini–Disney Stores and dedicated Apple displays, expand Target's product offerings and attract diverse customer segments, encouraging cross-category shopping.

- **Operational Efficiency & Supply Chain Investments:** Target continuously optimizes its supply chain through investments in distribution centers and advanced technologies like automation. Implementing lean inventory strategies ensures efficient stock management and faster replenishment. Leveraging its large scale, Target secures favorable supplier terms and utilizes pricing tools to maintain a competitive market position.

Sales share by product segment

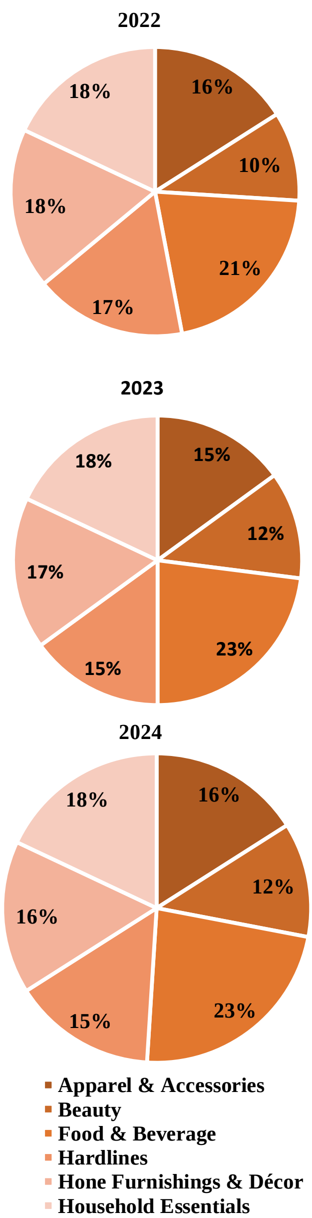

Figure 4 - Source: Company Website

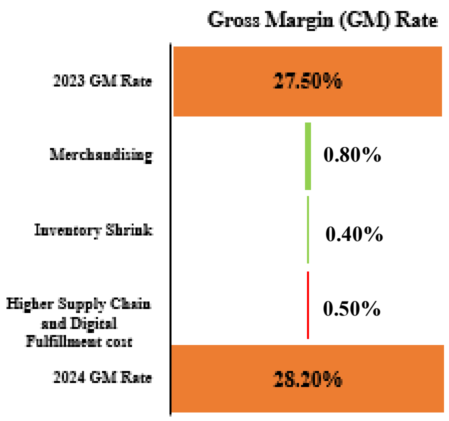

Figure 5 - Source: Company Website

Increase in GM rate in 2024 due to net impact of merchandising, inventory and high supply chain cost.

Industry Overview and Competitive Positioning

Demand Drivers:

Target's demand hinges on consumer spending, driven by income, economic stability, and confidence. Key drivers for Target include demographic shifts (Millennials/Gen Z seeking trendy, affordable Target products), seasonal shopping (holidays, back-to-school/college boosting Target demand), and preference for convenient shopping (online/same-day delivery driving Target's engagement/sales). 22.36% of Target's merchandise sales in (Figure4) FY 2024 comes from food/beverage and 17.47% from household essentials. Merchandise is Target's main revenue, supplemented by credit card profit-sharing. Statista also highlights Target's Gen Z appeal; a 2024 survey ranked Target third for teen girls' beauty shopping and 2023 data showed Gen Z favoring Target for apparel.

Impact of U.S. Economy:

Target's performance has mirrored U.S. economic trends. COVID-19 boosted Target's sales/stock. Recent inflation, rising costs, and tariffs (30% of goods from China) hurt Target's profits, lowering stock to $95. Reduced consumer confidence/discretionary income shifts spending to necessities at Target, pressuring Target's margins and investor growth outlook.

Tariffs & Inflation Impact:

Despite March's 228,000 job increase, economic concerns persist. Inflation (March CPI 2.4%) remains above Fed's 2% target, impacting consumers/businesses like Target. Rate cut uncertainty and ongoing China tariffs complicate Target's supply chains (reduced from 60% to 30% China reliance but still exposed). These factors force Target to strategically navigate rising costs.

Recent Trends and Market Initiatives:

In 2025, Target focused on innovation/customer connection via exclusive launches (Taylor Swift, Wicked, celebrity partnerships), 2,000+ new wellness items (600 Target exclusives), new brands ("deal worthy"), and 11 $1B+ owned brands. Target enhanced its digital presence with Target Plus and a revamped Target Circle. Tech upgrades at Target included AI inventory tools/Store Companion chatbot. To meet e-commerce demand, Target expanded same-day services (65% of digital orders, 7.7% growth) and opened 23 stores (stores-as-hubs). Despite these Target efforts, cautious consumer spending led to only 0.3% sales growth, with CEO noting delayed non-essential purchases impacting Target. As of FY2024 end (Feb 1, 2025), Target operated 1,978 U.S. stores (22 increase) (Figure5) across all 50 U.S. states and the District of Columbia., supporting in-store/digital fulfilment and Target's last-mile advantage.

Industry Growth and Market Comparison:

Target's five-year shareholder returns initially outperformed but later trailed the S&P 500 and retail peers (Figure 3). Post-COVID retail is stabilizing; NRF projects 2.7-3.7% 2025 growth ($5.48T). E-commerce continues to grow (8-9%), making omni-channel crucial for Target. Target blends digital/in-store, leveraging tech/AI. FY2025 net sales for Target were $106.6B (-0.8% due to one less week). Target expects Q1 profits to be

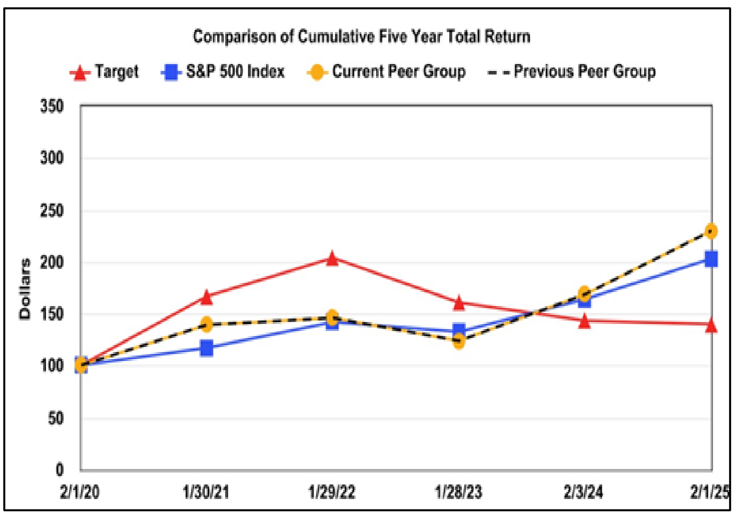

Figure 6: Company Website

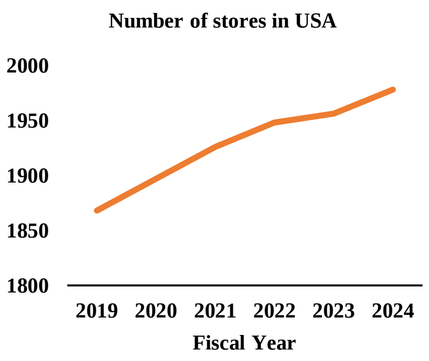

Figure 7: Statista

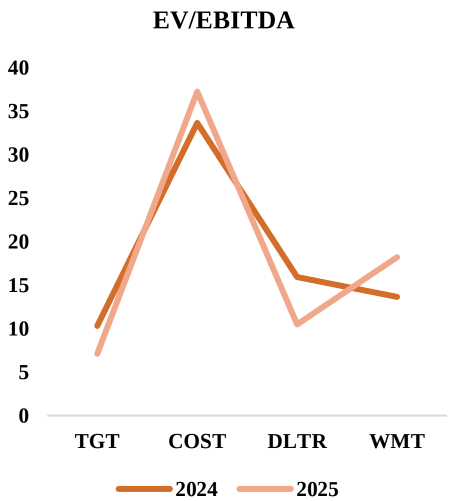

Figure 8: Yahoo Finance

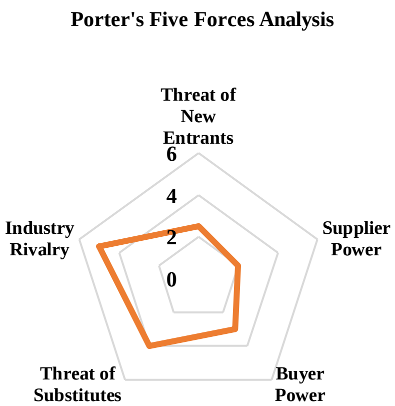

Figure 9: Team Analysis

pressured by economic uncertainty, weak Feb sales, tariffs, and expense timing.

Competitive Positioning:

Target operates in a highly competitive retail market (Amazon, Alibaba, Walmart, Costco). While smaller than some, Target performs above industry medians. Deloitte's 2025 report ranks Target among top global retailers. Target differentiates via exclusive brands, stylish/affordable products appealing to Millennials/Gen Z. Target's omnichannel strategy (in-store pickup, same-day delivery, digital experience) allows effective competition. In a tough market for new entrants, Target focuses on innovation/differentiation. With numerous alternatives, Target must continuously evolve with incentives, personalization, and value-added services. E-commerce intensifies competition, requiring Target to enhance its digital presence and adapt to shifting consumer expectations for price comparison, convenience, and

Table 1: Company Website

Competitive Positioning	Target(TGT)	Walmart(WMT)	Costco(COST)	Dollar Tree(DLTR)
Market Capitalization	$41.95B	$753.34B	$433.44B	$15.44B
Enterprise Value	$57.06B	$813.10B	$428.32B	$22.02B
Revenue	$106.57B	$680.98B	$264.09B	$17.58B
Gross Profit Margin	28.21%	24.85%	12.67%	35.81%
No. Of Stores	1,978	4,616	627	8,710
Share Price	90.46	91.19	967.75	73.47
Dividend Growth 5 Yr	11.23%	3.85%	12.28%	-

Porter’s Five Forces:

Threat of New Entrants: Low to Moderate

Entering the large-scale retail market requires substantial capital investment in infrastructure such as real estate, supply chains, technology, and inventory systems. Target’s established operations, brand recognition, and loyal customer base create high entry barriers. However, potential threats could arise from existing companies diversifying into retail, which may capture a small share of the market.

Bargaining Power of Suppliers: Low

Target works with a vast network of suppliers, allowing it to exert significant influence over pricing and contract terms. The availability of multiple suppliers for most products reduces their individual bargaining power. Additionally, Target's scale allows it to negotiate favorable terms, diminishing supplier leverage even further.

Bargaining Power of Customers: Moderate

Customers have access to numerous retail alternatives, both online and offline, which gives them moderate bargaining power. Price sensitivity and ease of switching between brands increase this power. However, Target’s differentiated product offerings, loyalty programs, and customer experience initiatives help mitigate some of this influence.

Threat of Substitutes: High

Consumers have a wide range of substitute options, including online marketplaces, specialty stores, warehouse clubs, and discount retailers. The convenience of e-commerce and changing consumer preferences intensify the threat. Target counters this with competitive pricing, exclusive brands, and integrated omni-channel services.

Competitive Rivalry: Very High

Target operates in a highly competitive landscape with strong rivals like Walmart, Amazon, Costco, and regional chains. Price wars, product assortment, customer service, and technological innovations are key battlegrounds. To maintain its position, Target continually invests in digital transformation, supply chain improvements, and brand differentiation.

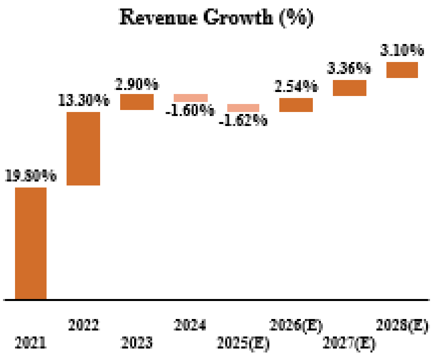

Figure 10: Values from Company's Website

Investment Summary

Target Corporation Overview: Target has evolved from a brick-and-mortar retailer to a blend of physical and digital shopping experiences. Key acquisitions, like 'Shipt' for same-day delivery and Roundel for advertising, have strengthened its digital capabilities.

Strengths:

- Target has successfully integrated its physical stores with a strong digital platform, enhancing the customer experience and offering convenient services.
- Services like same-day delivery, curbside pickup, and personalized online options provide customers with increased convenience and strengthen Target's competitive edge.
- Target's wide mix of owned and national brands reinforces its position as a one-stop shopping destination for a variety of consumer needs.
- A pricing strategy that includes price cuts on a wide range of items effectively appeals to budget-conscious shoppers.
- The Target Circle loyalty program has proven to be a key driver of customer retention and engagement.
- Roundel's strong performance in digital advertising contributed to growth.

Weakness:

- Target's focus on middle- and upper-income shoppers may deter price-sensitive customers, favoring competitors like Walmart and Costco.
- Target has faced criticism over its customer data handling and questionable marketing practices.
- A major 2014 data breach damaged the company's reputation and led to significant losses.
- Target's failed international expansion, notably in Canada, led to over $2 billion in losses.

Opportunities:

- Target plans to grow sales by $15 billion by 2030 and open 300+ stores.
- The Target Plus marketplace is expected to grow from $1B in 2024 to over $5B by 2030.
- Target is expanding its loyalty program, aiming to triple paid Circle 360 memberships.
- AI will be used to personalize product recommendations and improve delivery efficiency.
- Target is committed to reducing virgin plastic in packaging by 20% by 2025 and achieving net-zero emissions by 2040.

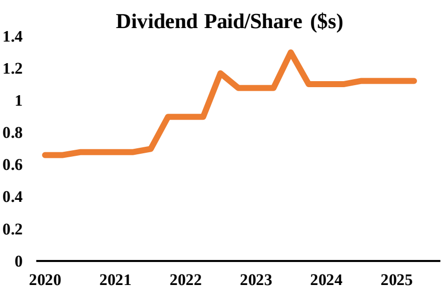

Figure 11: Values from dividendmax

Concerns:

- Target faces strong competition from both established retailers (Walmart, Amazon) and emerging players.
- Despite improvements, Target lags behind Amazon in logistics and tech capabilities.
- A weak U.S. economy or reduced spending from the middle class could hurt Target's sales.
- Without a clear niche, Target risks blending in with competitors, impacting customer loyalty.
- Involvement in controversial issues could hurt Target's public image and customer trust.

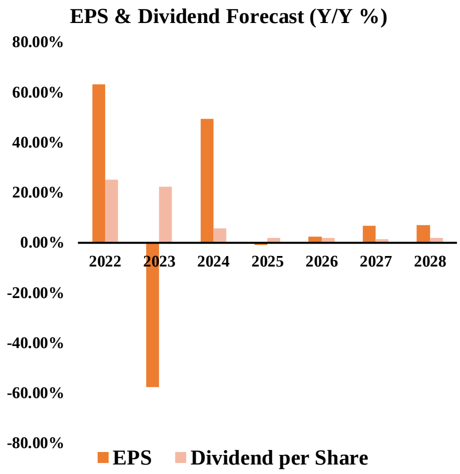

Figure 12: Values from Macrotrends

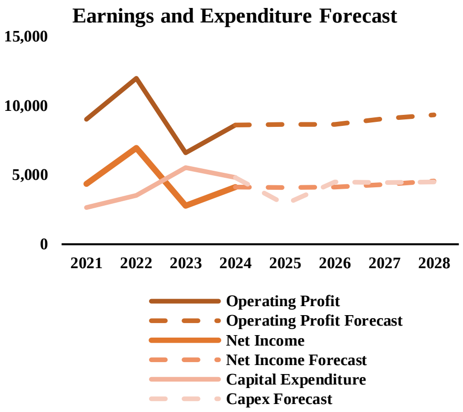

Figure 13: Values from Macrotrends

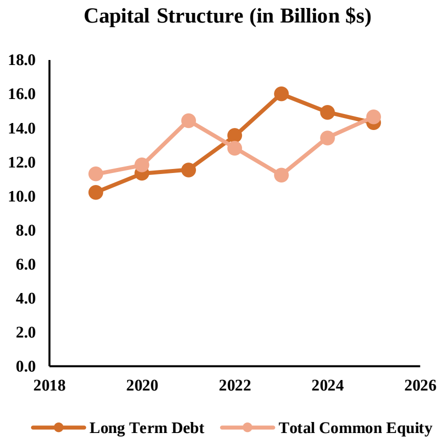

Figure 14: Values from Market Screener

A Valuation Summary:

The Discounted Cash Flow (DCF) analysis yields an intrinsic value of $165.24 for Target, an 76% upside compared to the current market share price of $93.82. This indicates that the current market value is undervalued according to the DCF model. The DCF model projects an increase in the growth of revenues and free cash flows over 5 years, which is supported by the sales and profitability increases shown above. For this model, a traditional WACC of 9.04% was used, which prices in any uncertainty the company would face in the coming years.

Dividend Discount Model analysis yields an intrinsic value of $115.83 for Target, a 23% upside compared to the current market share price of $93.82. This model is considered because the company has a strong cash position, generates significant operating cash flow, and has a long-standing record of dividend growth, making it a "Dividend King".

Recommendation: BUY

It is a Buy recommendation, as the stock is undervalued, taking into consideration the weighted average value of $135.59 from both the models as compared to the market value of $93.82. This reflects strong sales, cash flows, and dividend growth. Though the current market is down due to prevailing uncertainty from administrative tariffs, this is expected to be short-term. As consumer sentiment improves, the stock price should also increase, given these positive trends in the company's growth. These metrics make Target an excellent investment choice compared to its three major competitors: Walmart, Amazon, and Costco. Although the company lacks a cloud service division and failed to establish stores overseas, its stock stands out relative to its rivals. Therefore, buying the stock during a market dip should yield higher returns in the future.

Both the DCF and DDM methods have proven to be very useful in valuing Target stock. This is because the company has a history of paying stable dividends, and the dividend payout ratio reflects its economic profitability.

Financial Analysis

Sales, EPS & Dividend Per Share:

To track the company's progress, we've plotted the Year-on-Year growth in Sales (Figure), Earnings Per Share (EPS), and Dividend Per Share along with their forecasts. After 2022, sales have continued to grow but at a slower pace. In 2024, sales growth turned negative, though an improvement is expected in the coming years. By 2026, sales growth is projected to turn positive and continue rising thereafter.

EPS saw a sharp decline in 2023 but rebounded in 2024. A strong recovery is forecasted, with EPS expected to rise from $8.64 million in 2021 to over $10 million by 2028, despite a 58% drop in 2023. This suggests improved profitability, likely driven by cost efficiency or better margins even during periods of flat sales. Dividend Per Share shows a downward trend in growth over the forecast period.

As the company EPS is expected to grow as showed above, this could be due to share buybacks, revenue growth, margins improvement, lower debt, stable capital expenditure and increment in cash flows. This increase in EPS with slower increase in price per share will cause P/E to decline.

Debt Analysis	2021	2022	2023	2024	2025	2026	2027	2028
Leverage (Debt/EBITDA)	0.46x	0.65x	2.11x	1.42x	1.29x	1.28x	1.21x	1.17x
Debt / Free cash flow	0.53x	1.54x	-9.21x	3.21x	2.5x	3.96x	3.32x	3.29x

Table 2: Team Analysis

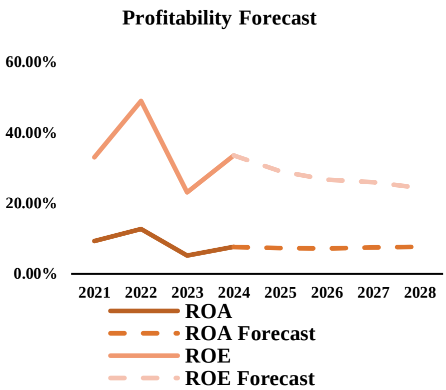

Figure 15: Macrotrends

Earnings and Expenditure Forecast:

Operating profit declined in 2023 but is projected to grow steadily afterward. Net profit is expected to remain relatively flat. Capital expenditure is forecasted to dip in 2025, followed by growth in the subsequent years.

Profitability Forecast:

ROA: Declined in 2023 but is projected to grow steadily, reflecting improved profitability despite challenges like reduced consumer spending and supply chain costs.

ROE: Dropped in 2023, rebounded in 2024, but is expected to decline as Target repays debt.

Leverage and Debt: Target's declining leverage forecast indicates the company can pay off its debt in the coming years. The Debt-to-FCF ratio is expected to decline in 2025 but rise later, indicating reduced free cash flow due to increased capital expenditures.

Outlook for Target Corporation:

Target Corporation's outlook for 2025 is relatively cautious, with the company expecting stable comparable sales and a slight improvement in its operating margin. Earnings per share (EPS) are projected to be in the range of $8.80 to $9.80. While the company's digital initiatives and plans to grow its online marketplace and expand product variety support a positive long-term view, Target may face short-term challenges, including pressure on profitability from tariffs and uncertainty in consumer spending patterns.

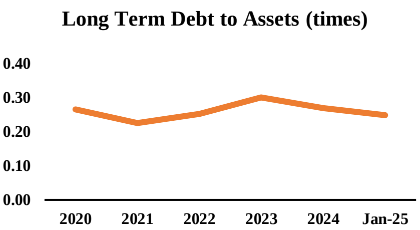

Figure 16: Team Analysis

Valuation of Company

To value Target Corporation, both the Discounted Cash Flow (DCF) model and the Dividend Discount Model (DDM) were employed. In determining the final intrinsic value, 40:60 (DCF: DDM) weighting was assigned to each model. Based on this approach, the blended intrinsic value was calculated as:

$$\mathbf{0.4 \times 165.24 + 0.6 \times 115.83 = \$135.59}$$

Since the current stock price is below the estimated intrinsic value, the analysis suggests that the stock is undervalued.

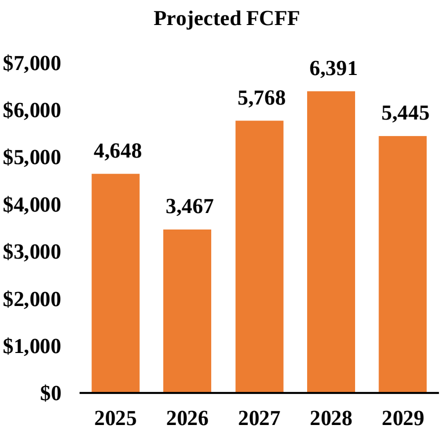

Figure 17: Team Analysis

Discounted Cash Flow (DCF) Model

A Discounted Cash Flow (DCF) model was employed to estimate the intrinsic value of Target Corporation's share price by discounting projected future cash flows and the terminal value using the Weighted Average Cost of Capital (WACC). Revenue and operating profit forecasts for the next five years were utilized to derive the firm's Free Cash Flows (FCFs).

The model was developed based on historical performance data, expected growth, prevailing market trends, macroeconomic uncertainties, and projected earnings growth.

Exit Multiple: EV/EBITDA

To determine this multiple, the industry median was used instead of the mean, as the mean produced high and skewed results. The EV/EBITDA multiples of peers such as Walmart, Costco, and Dollar Tree were considered. This multiple was then used to calculate the terminal value of the company.

WACC:

The discount rate was determined by calculating the WACC, which incorporates the market values and respective costs of debt and equity. The Capital Asset Pricing Model (CAPM) was used to estimate the cost of equity, applying a 5-year adjusted beta of 1.18x for Target Corporation.

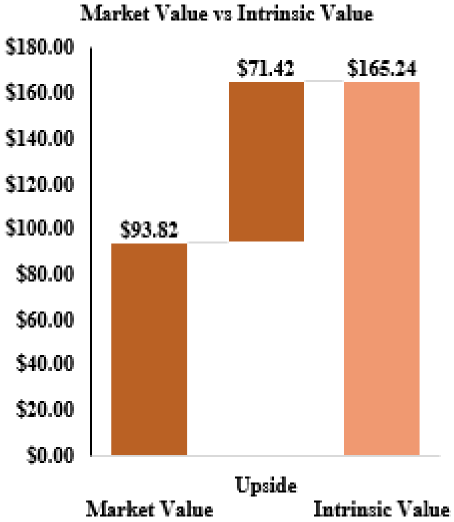

Figure 18: Team Analysis

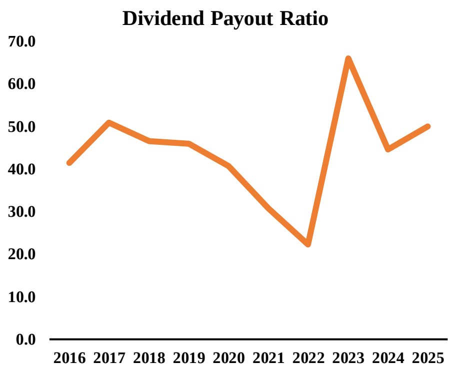

Figure 19: Stock Analysis

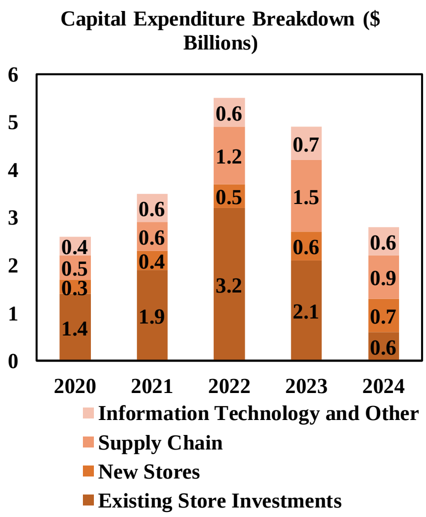

Figure 20: Company Website

Terminal Value:

The terminal value was estimated using a combination of the Gordon Growth Model (GGM) and the EV/EBITDA multiple approach. The average of the two estimates was taken to arrive at a balanced terminal value. This value was added to the final year's projected free cash flow to determine the terminal cash flow.

By discounting the projected free cash flows and the terminal value using WACC, the Net Present Value (NPV) of the firm's future cash flows was obtained, which represents the total firm value.

Intrinsic Value:

To arrive at the intrinsic value per share, the cash amount was added and the net debt was subtracted from the firm value, and the result was divided by the number of outstanding shares.

TV/FCFF Multiple:

We have calculated this multiple to analyse how much amount of terminal value is generated from cash flows of the company. The value of 20.54x is better showing that the company growth is not completely depending on its future cash flows.

Dividend Discount Model

Dividend Growth Assumptions:

As a consumer discretionary company, Target experienced significant earnings growth during the COVID-19 period. As a result, the firm distributed approximately 50% of its revenue as dividends during that time. Dividend growth was analyzed under two scenarios to derive a realistic estimate:

- Scenario 1: The average annual dividend growth from 2014 to 2024 was calculated to be 10.1%, this figure appears to be skewed by abnormally high dividend increases between 2021 and 2023.
- Scenario 2: The average dividend growth rate for the pre-COVID years (2015 to 2019) was determined to be 6.5%, which is considered more stable and reflective of sustainable long-term growth.

Based on this analysis, the average of stable dividend growth rate of 6.5% from the pre-pandemic period was viewed as a more conservative and reliable estimate for projecting future dividends.

Over the past decade, the annual dividend has increased from $1.58 in 2013 to $4.44 in 2024, indicating a strong track record of dividend growth. A forward dividend (D_1) of $4.52 and a long-term dividend growth rate of 6.5%, derived from historical trends, were used in the Gordon Growth Model to estimate the intrinsic value.

Applying a required rate of return of 10.90%, calculated using the Capital Asset Pricing Model (CAPM) formula: $r = Rf + \beta\ (Rm - Rf)$, the intrinsic value was estimated at $115.83. When compared to the current stock price of $93., the analysis suggests that Target Corporation is undervalued based on dividend fundamentals. The company's stable dividend payouts, supported by strong earnings, further reflect its solid standing within the retail sector.

Investment risks

Legal & Regulatory Risks:

Failure to comply with laws or legal changes could harm Target's operations. Complex regulations in Target's industry could increase Target's expenses. Noncompliance could lead to legal and reputational risks, government actions, and lawsuits, impacting Target's financials. Target must adhere to product safety laws and its own standards. Failure in product safety and sourcing could cause recalls, liabilities, and reputational damage for Target. Issues like contamination or supply chain transparency could hurt Target's performance. Managing Target's large workforce improperly could raise operating expenses for Target. Target must also follow labor laws, consumer protection, and data privacy. A past data breach highlights cybersecurity importance for Target; non-compliance could lead to fines or growth restrictions for Target.

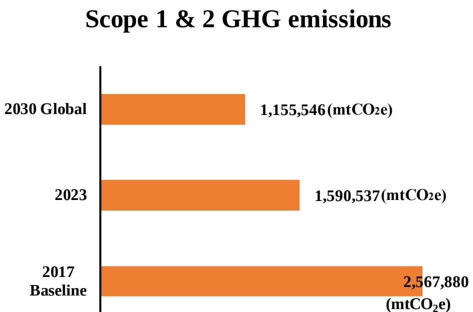

Figure 21: Company Report

Economic Risks:

Target's earnings depend on U.S. economic conditions and consumer confidence, as almost all of Target's sales are in the U.S. Factors like inflation, interest rates, unemployment, and credit usage affect Target. Economic downturns shift consumer spending to essentials, impacting Target's sales, margins, and credit card profit-sharing, thus affecting Target's operations and financial health. Demand for Target's discretionary goods is tied to job growth and consumer confidence, currently low. Weak job growth could reduce consumer spending and Target's revenues. Higher interest rates would increase Target's debt costs, potentially delaying Target's expansion, supply chain improvements, and technology upgrades.

Supply Chain:

Target relies on vendors and third parties for supply and distribution. Disruptions, vendor failures, or shortages can cause out-of-stock items, delays, and cost increases for Target. A large portion of Target's merchandise is sourced internationally, mainly from China; trade policy changes or geopolitical risks could raise Target's prices. Rising raw material, transportation, wage, and supplier costs can also hurt Target's profit margins. Inflation, labor shortages, transportation issues, and geopolitical tensions can further harm Target's supply chain and increase costs. While Target has mitigated some risks, ongoing challenges could still impact Target's overall business performance.

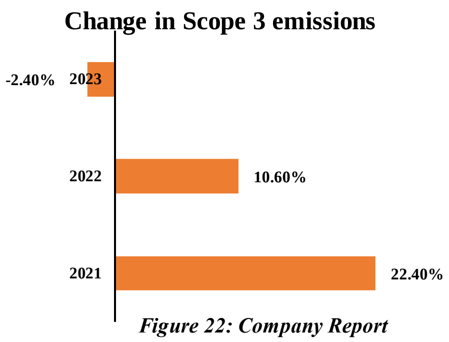

Figure 22: Company Report

Operational Risks:

Target's ability to manage inventory efficiently is crucial. Target experiences inventory loss from damage and theft, with recent levels higher than historical averages, affecting Target's operations and financials. Sustained high inventory shrinkage at certain Target stores may lead to closures. Differentiating from competitors is a constant challenge for Target, impacting its financial condition if unsuccessful. Adapting to the digital environment is key for Target as consumers easily compare retailers, risking purchasing decisions based on price and convenience, making it harder for Target to stand out and affecting Target's financial performance. Increased costs and lower margins may force Target to raise prices, potentially leading to a loss of market share as price-sensitive consumers seek better value elsewhere, ultimately reducing Target's revenue and market presence.

Environmental, Social and Governance Factors

Environmental:

Target Corporation has taken strong steps toward building a more sustainable future by focusing on key areas like waste reduction, renewable energy use, water conservation, lowering emissions, and responsible sourcing. These efforts are part of its broader corporate strategy to create a positive environmental impact while improving long-term business resilience.

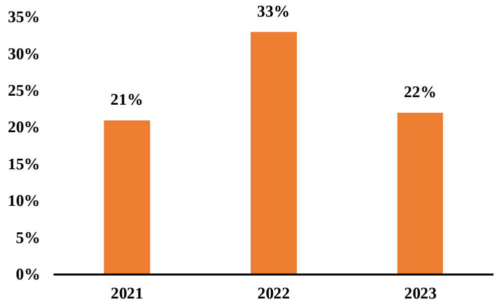

Figure 23: Company Report

Annual total virgin plastic used in brand packaging decreased by 11% in 2023.

- **Net-Zero by 2040:**
  Target aims to become a net-zero company by 2040, focusing on reducing Scope 1 & 2 emissions by 20% and Scope 3 by 30% by 2030. It's also on track to source 100% of its electricity from renewable energy by 2030, with 60% already achieved through wind and solar power.

- **Waste Reduction:**
  By 2025, all plastic packaging for owned brands will be recyclable, compostable, or reusable. The company also plans to divert 90% of operational waste from landfills by 2030 through recycling, reuse, donations, and smarter packaging.

- **Climate Risk Planning:**
  Target uses the TCFD framework to assess climate-related risks across its operations and supply chain. This helps the company make informed decisions and build resilience against climate disruptions like extreme weather or supply chain delays.

- **Water Conservation:**
  Target is investing in water-efficient technologies to reduce its water usage. These upgrades are especially important for stores and operations in water-stressed regions, contributing to long-term sustainability.

- **Sustainable Product Design:**
  Target is redesigning products to be more durable, easier to repair, and recyclable. This reduces waste and supports a longer product lifecycle, encouraging responsible consumption.

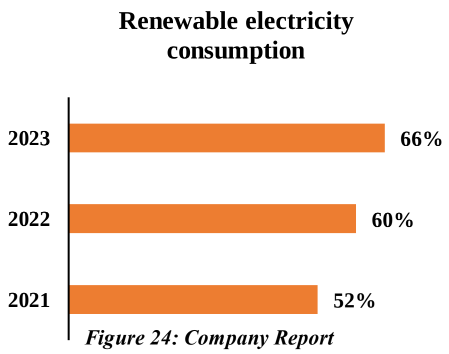

Figure 24: Company Report

Target used 66% of the electricity from renewable sources.

Social:

Target is deeply committed to supporting its employees, promoting diversity, giving back to communities, and running its business ethically.

- **Employee Support:**
  Target offers competitive pay ranging from $15 to $24/hour, along with expanded healthcare, paid family leave, and the "Dream to Be" program, which provides tuition-free education and debt-free degrees to eligible employees.

- **Diversity, Equity & Inclusion (DE&I):**
  With 50% of its workforce identifying as people of color and over half as women, Target focuses on building a diverse and inclusive culture. Its REACH initiative commits $2 billion to Black-owned businesses and increases representation in leadership. It also earned a perfect score on the HRC Corporate Equality Index.

- **Community Investment:**
  Target donates 5% of its profits to community causes each year. In 2023, it contributed over $26 million to nonprofits through the Target Circle program, while employees volunteered over 1 million hours to support local initiatives.

- **Ethical Practices and Product Safety:**
  All Target-owned brand products meet or exceed safety standards, with rigorous testing and oversight. It also holds manufacturing partners to a strict code of conduct, ensuring fair labor practices and respect for human rights.

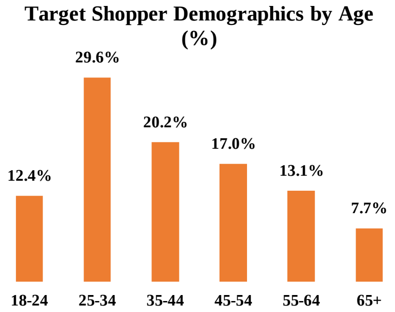

Figure 25: Contimod

Governance:

Target demonstrates strong corporate governance through experienced leadership, performance-linked compensation, and robust board oversight.

- **Executive Leadership & Risk Management:**

CEO Brian Cornell, leading since 2014, brings over 30 years of experience and has guided Target through key transformations—from exiting Canada to building digital and supply chain strength. The leadership team has shown resilience through events like COVID-19, cyber threats, and inventory disruptions, adapting quickly to stabilize margins in 2023.

- **Compensation Philosophy:**
  Target's senior management compensation is heavily performance-based, with over 70% in stock awards. Compensation for Named Executive Officers (NEOs) includes base salary, short-term (STIP), and long-term incentives (PSUs and PBRSUs). All payouts are tied to sales, earnings, return on capital, and stock performance. This structure aligns leadership incentives with shareholder value creation.

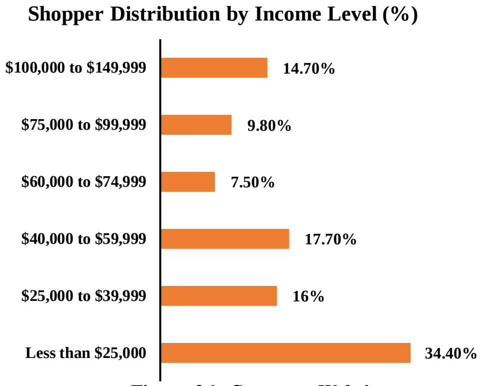

Figure 26: Company Website

- **Succession Planning:**
  While Target has a general framework in place, the lack of named successors—evident in recent executive retirements—raises concerns about the company's readiness for sudden leadership transitions.

- **Board Structure & Oversight:**
  Target has 12 board members, with 11 independent directors (91.7%), exceeding NYSE's best practice. This strong independence supports objective oversight of corporate strategy, risk, and compensation. However, limited insider presence may risk disconnect from day-to-day operations in a fast-paced retail environment.

- **Governance Policies:**
  The company upholds one-share-one-vote rights and maintains strong shareholder protections. It also follows a comprehensive Code of Ethics for both directors and employees. Key board committees include Audit & Risk, Compensation & Human Capital, Governance & Sustainability, and Infrastructure & Finance.

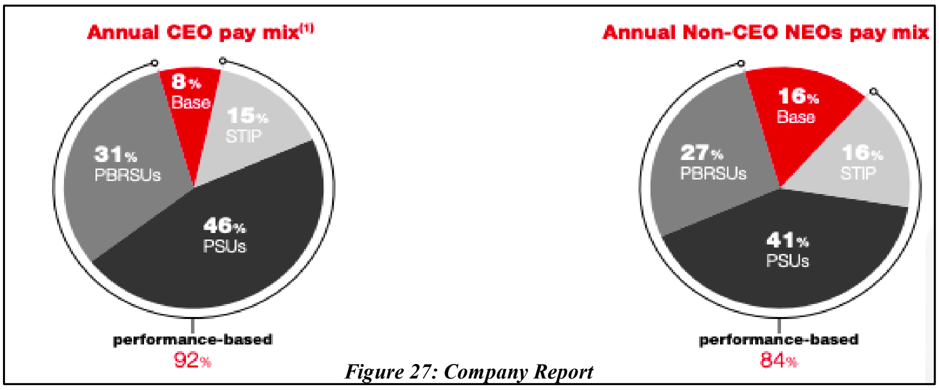

Figure 27: Company Report

Appendix A: Income Statement

In Millions of USD except Per Share	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025 Est	FY 2026 Est	FY 2027 Est	FY 2028 Est	FY 2029 Est
12 Months Ending	01/31/2015	01/30/2016	01/28/2017	02/03/2018	02/02/2019	02/01/2020	01/30/2021	01/29/2022	01/28/2023	02/03/2024	01/31/2025	01/31/2026	01/31/2027	01/31/2028	01/31/2029
Revenue	72,618.0	73,785.0	69,495.0	72,714.0	75,356.0	78,112.0	93,561.0	106,005.0	109,120.0	107,412.0	105,668.8	108,349.9	111,988.4	115,455.5	121,359.0
%growth		1.016	0.942	1.046	1.036	1.037	1.198	1.133	1.029	0.984	0.984	1.025	1.034	1.031	1.051
Gross Profit	21,340.0	21,544.0	20,350.0	21,589.0	22,057.0	23,248.0	27,384.0	31,042.0	26,891.0	29,676.0	28,981.8	29,930.6	31,118.2	31,625.6	33,365.2
Operating Income/EBIT (Loss)	4,535.0	5,530.0	4,969.0	4,224.0	4,110.0	4,658.0	6,539.0	8,946.0	3,848.0	5,707.0	5,518.7	5,779.0	6,219.9	6,452.9	6,984.0
Pretax Income	3,653.0	4,923.0	3,965.0	3,630.0	3,676.0	4,190.0	5,546.0	8,907.0	3,418.0	5,297.0	5,188.1	5,426.9	5,869.0	6,056.5	6,556.3
Income (Loss) from Cont Ops	2,449.0	3,321.0	2,669.0	2,908.0	2,930.0	3,269.0	4,368.0	6,946.0	2,780.0	4,138.0	4,031.9	4,224.6	4,540.7	4,808.1	5,088.5
- Net Extraordinary Losses (Gains)	4,085.0	-42.0	-68.0	-6.0	-7.0	-12.0	0.0	0.0	0.0	0.0					
+ Discontinued Operations	4,085.0	-42.0	-68.0	-6.0	-7.0	-12.0	0.0	0.0	0.0	0.0					
+ XO & Accounting Changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Income (Loss) Incl. MI	-1,636.0	3,363.0	2,737.0	2,914.0	2,937.0	3,281.0	4,368.0	6,946.0	2,780.0	4,138.0					
- Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Net Income, GAAP	-1,636.0	3,363.0	2,737.0	2,914.0	2,937.0	3,281.0	4,368.0	6,946.0	2,780.0	4,138.0	4,031.9	4,224.6	4,540.7	4,808.1	5,088.5
Dividends per Share	1.99	2.20	2.36	2.46	2.54	2.62	2.70	3.38	4.14	4.38	4.45	4.46	4.62	5.03	5.30

Appendix B: Income Statement Common Size Analysis

In Millions of USD except Per Share	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025 Est	FY 2026 Est	FY 2027 Est	FY 2028 Est	FY 2029 Est
12 Months Ending	01/31/2015	01/30/2016	01/28/2017	02/03/2018	02/02/2019	02/01/2020	01/30/2021	01/29/2022	01/28/2023	02/03/2024	01/31/2025	01/31/2026	01/31/2027	01/31/2028	01/31/2029
Revenue	72,618.0	73,785.0	69,495.0	72,714.0	75,356.0	78,112.0	93,561.0	106,005.0	109,120.0	107,412.0	105,668.8	108,349.9	111,988.4	115,455.5	121,359.0
Gross Profit	29.4%	29.2%	29.3%	29.7%	29.3%	29.8%	29.3%	29.3%	24.6%	27.6%	27.4%	27.6%	27.8%	27.4%	27.5%
Operating Income (Loss)	6.2%	7.5%	7.2%	5.8%	5.5%	6.0%	7.0%	8.4%	3.5%	5.3%	5.2%	5.3%	5.6%	5.6%	5.8%
Pretax Income	5.0%	6.7%	5.7%	5.0%	4.9%	5.4%	5.9%	8.4%	3.1%	4.9%	4.9%	5.0%	5.2%	5.2%	5.4%
Income (Loss) from Cont Ops	3.4%	4.5%	3.8%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%	3.8%	3.9%	4.1%	4.2%	4.2%
- Net Extraordinary Losses (Gains)	5.6%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					
+ Discontinued Operations	5.6%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					
+ XO & Accounting Changes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					
Income (Loss) Incl. MI	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%					
- Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					
Net Income, GAAP	-2.3%	4.6%	3.9%	4.0%	3.9%	4.2%	4.7%	6.6%	2.5%	3.9%	3.8%	3.9%	4.1%	4.2%	4.2%
Dividends per Share	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Appendix C: Margin Comparison Across Peers

Ticker	Company Name	Gross Margin '23-'24	Gross Margin '24-'25	EBIT Margin '23-'24	EBIT Margin '24-'25	EBITDA Margin '23-'24	EBITDA Margin '24-'25	Net Margin '23-'24	Net Margin '24-'25
TGT	Target Corporation	28%	28%	5%	5%	8%	8%	4%	4%
COST	Costco Wholesale Corporation	12%	13%	3%	4%	34%	35%	3%	3%
DLTR	Dollar Tree, Inc.	75%	74%	65%	65%	65%	66%	53%	53%
WMT	Walmart Inc.	24%	24%	4%	5%	6%	6%	3%	3%
Mean		35%	35%	20%	20%	28%	29%	16%	16%
Median		26%	26%	5%	5%	21%	21%	3%	3%

Appendix D: Market Performance and Valuation Metrics

Ticker	Company Name	Market Cap	Enterprise Value	Current Price	52-Wk Low	52-Wk High	%-52-Wk High	1-Month Price Change	6-Month Price Change
TGT	Target Corporation	43,610	58,720	95.72	90.62	173.04	45%	(18%)	(36%)
COST	Costco Wholesale Corporation	406,630	401,510	916.48	702.00	1078.24	15%	(13%)	5%
DLTR	Dollar Tree, Inc.	14,530	21,100	67.55	60.49	131.52	49%	(4%)	(3%)
WMT	Walmart Inc.	666,920	458,400	83.19	58.56	105.30	21%	(13%)	5%
Mean							32%	(12%)	(7%)
Median							33%	(13%)	1%

Appendix E: Valuation Multiples Comparison

Ticker	Company Name	EV / EBITDA '24	EV / EBITDA '25	P / E '24	P / E '25
TGT	Target Corporation	10.3x	7.1x	0.2x	0.2x
COST	Costco Wholesale Corporation	33.6x	37.2x	0.6x	0.5x
DLTR	Dollar Tree, Inc.	15.9x	10.5x	0.2x	0.1x
WMT	Walmart Inc.	13.6x	18.2x	0.3x	0.4x
Mean		**18.3x**	**18.3x**	**0.3x**	**0.3x**
Median		**14.7x**	**14.3x**	**0.3x**	**0.3x**

Appendix F: Discounted Cash Flow Model Assumptions

Assumptions		
Tax Rate	24.4%	
WACC (Discount Rate for FCFF)	9.04%	
Perpetural Growth Rate	2.50%	
TGT adjusted beta 5Y	1.18x	
Wd	23%	
We (use MV of Eq)	77%	
Kd pre tax	5.8%	
Ke (CAPM)	10.4%	
Current Market Price	93.82	
Shares Outstanding	462	Mil
Debt	19,746	Mil $
Cash	3,805	Mil $
EV/EBITDA	14.30	

Appendix G: WACC Calculation

WACC	
% of Equity	77.40%
Cost of Equity	10.38%
Risk Free Rate	4.48%
Adjusted Beta	1.180
Market Risk Premium	5.00%
% of Debt	22.6%
Cost of Debt pre tax	5.80%
Tax Rate	24.40%
WACC	9.03%

Appendix H: Discounted Cash Flow Model

			1/1/25	1/1/26	1/1/27	1/1/28	1/1/29
		Actual	Projected...				
Discounted Cash Flow	**% of REV**	**FY2024**	**FY2025**	**FY2026**	**FY2027**	**FY2028**	**FY2029**
Revenue (M$)		107,412	105,669	108,350	111,988	115,456	121,359
%change			0.98	1.03	1.03	1.03	1.05
COGS	0.72	77,736					
Gross Profit		29,676	28,982	29,931	31,118	31,626	33,365
Operating Expense		23,969					
EBIT (Op. Profit)	5.31%	5,707	5,614	5,757	5,950	6,134	6,448
Less: Cash Taxes		1,159	1,156	1,202	1,328	1,248	1,468
Plus: D&A		2,415	2,808	2,879	2,976	3,068	3,225
Less: Capex	0.044	4,704	2,827	4,180	2,050	1,791	3,000
Less: Changes in NWC	(0.002)	(212)	(209)	(214)	(221)	(228)	(240)
FCFF		2,471	4,648	3,467	5,768	6,391	5,445
							111,805
Transaction CF			4,648	3,467	5,768	6,391	117,249
Transaction CF			4,648	3,467	5,768	6,391	117,249

Appendix I: Sensitivity Analysis of Intrinsic Value to ±50 bps Change in EBIT Margin

Operating Margin Sensitivity Analysis			
Scenario Analysis	EBIT Margin	Equity Value/Share	Change From Base
- 50 Basis Points	4.81%	147.76	-11%
Base Case	5.31%	165.24	-
+ 50Basis Points	5.81%	182.73	11%

Appendix J: Dividend Discount Model

Dividend Discount Model (DDM)

Target Corporation (TGT)

Year	Quarterly Dividend	Annual Dividend	Growth
2024	$ 1.12	$ 4.44	1.8%
2023	$ 1.10	$ 4.36	10.1%
2022	$ 1.08	$ 3.96	25.3%
2021	$ 0.90	$ 3.16	17.9%
2020	$ 0.68	$ 2.68	3.1%
2019	$ 0.66	$ 2.60	3.2%
2018	$ 0.64	$ 2.52	3.3%
2017	$ 0.62	$ 2.44	5.2%
2016	$ 0.60	$ 2.32	7.4%
2015	$ 0.56	$ 2.16	

Growth (g)	6.50%
Required Return (r)	10.40%
Actual Price	93.82
DDM Price	$ 115.83
Overvalued or Undervalued	Undervalued

Rf	4.48%
Beta (Adj)	1.18
Rm	9.50%
D1	$ 4.52

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