



UConn Student Managed Fund

Target (NYSE: TGT)

January 5, 2022

Target Price: \$290.87
 Current Price: \$231.35
 Stop loss: \$185.08
 52 Week High/Low: \$166.83/\$268.98

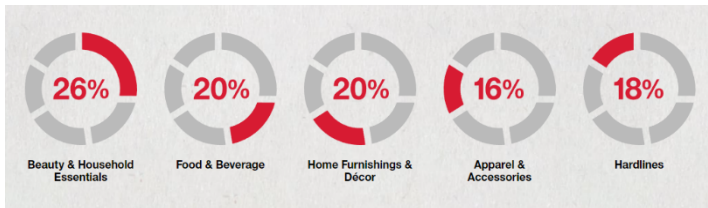
Market Cap (\$B): \$110.88 B
 Dividend Yield: 1.54%
 Beta: 1.02
 ROIC: 25.21%

P/E Ratio (TTM): 17.16
 EV/EBITDA: 10.40
 EBITDA Margin: 9.65%
 Gross Margin: 29.54%

Company Overview

Target Corporation is one of the largest retailers in the U.S As of January 30, 2021, the company operated 1,964 Target locations in the U.S with 246.1 million square feet of floor space, up from 1,868 stores with 240.5 million square feet of floor space twelve months earlier. Target currently has stores in all 50 states and the District of Columbia. Its stores generally cater to middle- and upper-income consumers, carrying a broad assortment of fashion apparel, electronics, home furnishing, household products, and other general merchandise.

Target's primary growth drivers are new store opening and same-store sales. The company added 29 new stores in 2021. TGT seeks to appeal to customers that are interested in sophisticated styles and quality by offering fashion newness, trusted brands, and exclusive designer labels such as Maternity by Liz Lange. It also frequently collaborates with well-known designers such as Jason Wu and Missoni offering limited-time collections.



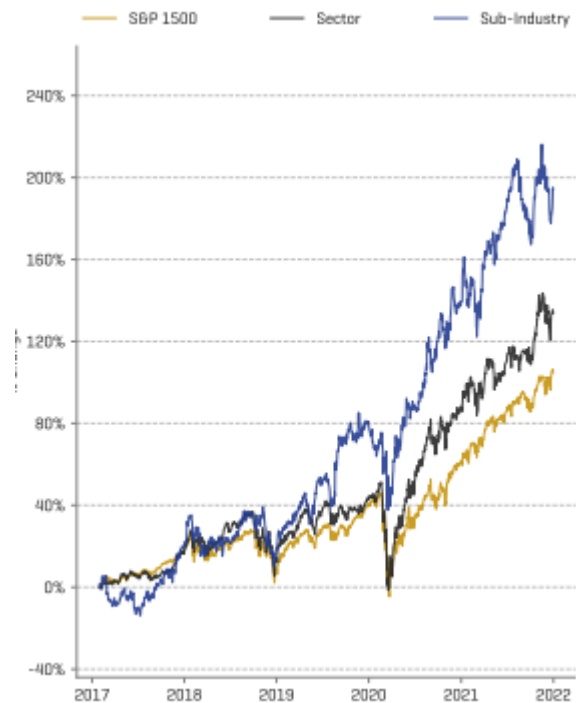
Industry Outlook

The CFRA report indicates the fundamental outlook for general merchandisers is positive, reflecting the view of plenty store growth runway, favorable secular trends.

Store openings and a shift in product to higher margin discretionary items will continue to fuel of the industry's multifaceted growth narrative. More than 3,000 store openings have already been announced by retailers in 2021, with a disproportionate share in the off-price and general merchandise category, including from Dollar General and Dollar Tree.

Cost inflation has been the buzzword among the industry and border sector over the past several months. General merchandisers are seeing inflationary pressures related to products, transportation, and labor. Supply chain bottlenecks, mainly driven by delays at ports have made conditions even worse as costs are rising and inventory availability is becoming an increasing concern ahead of the holiday season. General merchandisers have been managing the inflationary pressures

through product markups and by increasing products with higher-margin items. The inventory supply chain situation has been difficult to manage, but retailers are attempting to secure more shipping containers and reduce complexities within the supply chain.



Investment Thesis

- ✓ Investment in Customer Loyalty
- ✓ Supply Chain Management
- ✓ Same-Day Service Initiative

Investment Risks

- Retail environment is intensely competitive
- Economic downturn and less consumer spending power
- Leverage with vendors compared to competitors

Financial Performance

Breakdown	TTM	1/31/2021	1/31/2020	1/31/2019	1/31/2018
> Total Revenue	103,348,000	93,561,000	78,112,000	75,356,000	71,879,000
Cost of Revenue	72,687,000	66,177,000	54,864,000	53,299,000	51,125,000
Gross Profit	30,661,000	27,384,000	23,248,000	22,057,000	20,754,000
> Operating Expense	21,974,000	20,845,000	18,590,000	17,947,000	16,442,000
Operating Income	8,687,000	6,539,000	4,658,000	4,110,000	4,312,000
> Net Non Operating Interest Inc...	-423,000	-977,000	-477,000	-461,000	-666,000
> Other Income Expense	356,000	-16,000	9,000	27,000	59,000
Pretax Income	8,620,000	5,546,000	4,190,000	3,676,000	3,646,000
Tax Provision	1,838,000	1,178,000	921,000	746,000	718,000
> Net Income Common Stockhold...	6,782,000	4,368,000	3,281,000	2,937,000	2,934,000
Diluted NI Available to Com Stock...	6,782,000	4,368,000	3,281,000	2,937,000	2,934,000
Basic EPS	-	8.72	6.42	5.55	5.32
Diluted EPS	-	8.64	6.36	5.51	5.29
Basic Average Shares	-	500,600	510,900	528,600	547,744
Diluted Average Shares	-	505,400	515,600	533,200	550,851
Total Operating Income as Reported	8,687,000	6,539,000	4,658,000	4,110,000	4,224,000
Total Expenses	94,661,000	87,022,000	73,454,000	71,246,000	67,567,000
Net Income from Continuing & Dis...	6,782,000	4,368,000	3,281,000	2,937,000	2,934,000
Normalized Income	6,782,000	4,368,000	3,269,000	2,930,000	2,928,000
Interest Expense	423,000	977,000	477,000	461,000	666,000
Net Interest Income	-423,000	-977,000	-477,000	-461,000	-666,000

Valuation Assumptions & Key Financials

We recommend a BUY rate for TGT based on a target price of \$290.87 per share. This target price reflects a 26% margin of safety based on its closing price of \$231.35 on January 6, 2022. We calculated WACC as 6.8%, 10.5 exit EV/EBITDA.

	2020	Q3-21 TTM	2021	2022	2023	2024	2025
Revenue	93,561	103,349	106,585	114,046	120,889	126,933	132,010
% YoY Growth	19.78%	10.46%	13.92%	7.00%	6.00%	5.00%	4.00%
(-) Cost of Sales	65,922	72,687	76,741	80,973	84,622	88,853	92,407
% of Revenue	70.46%	70.33%	72.00%	71.00%	70.00%	70.00%	70.00%
(-) SG&A	18,615	19,665	20,784	21,954	22,969	24,117	25,082
% of Revenue	19.90%	19.03%	19.50%	19.25%	19.00%	19.00%	19.00%
(-) Depreciation & Amort.	2,485	2,309	3,730	3,992	4,231	4,443	4,620
% of Revenue	2.66%	2.23%	3.50%	3.50%	3.50%	3.50%	3.50%
(=) Operating Income	6,539	8,688	5,329	7,128	9,067	9,520	9,901
% Margin	6.99%	8.41%	5.00%	6.25%	7.50%	7.50%	7.50%
(-) Tax on Income	1,178	1,838	1,066	1,426	1,813	1,904	1,980
% Tax Rate	18.01%	21.16%	20.00%	20.00%	20.00%	20.00%	20.00%
(=) NOPAT	5,361	6,850	4,263	5,702	7,253	7,616	7,921
% Margin	5.73%	6.63%	4.00%	5.00%	6.00%	6.00%	6.00%
(+) Depreciation & Amortization	2,485	2,309	3,730	3,992	4,231	4,443	4,620
% of Revenue	2.66%	2.23%	3.50%	3.50%	3.50%	3.50%	3.50%
(-) Capital Expenditure	2,649	3,123	4,263	4,562	4,836	5,077	5,280
% of Revenue	2.83%	3.02%	4.00%	4.00%	4.00%	4.00%	4.00%
(-) Changes in Net Working Capital	3,199	-244	32	35	37	38	40
% of Revenue	3.42%	-0.24%	0.03%	0.03%	0.03%	0.03%	0.03%
(=) Free Cash Flow	1,998	6,280	3,698	5,098	6,612	6,943	7,221
% Margin	2.14%	6.08%	3.47%	4.47%	5.47%	5.47%	5.47%

ESG Considerations

TGT Has no outstanding ESG issues. From reviewing the ESG report, TGT has lower governance ratings, start at 1969 Target start to give out 5% of their profit to the community

Sustainability ^①

ESG Risk Rating Assessment



ESG Risk Rating



Negligible
0-9.99

Highest Controversy Level (1 = Low, 5 = Severe)

3 Significant

Incidents: Social Supply Chain, Customer

Top 3 Material ESG Issue

Human Capital
Overall

ESG Risk Rating is as of Dec 01, 2021. Highest Controversy Level is as of Nov 08, 2021. Sus ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not and more information, please visit: sustainalytics.com/esg-ratings/.