

TARGET CORPORATION (NYSE: TGT)



(as at May 31, 2020)

Business Description:

Target Corporation engages in the owning and operating of general merchandise stores. It offers curated general merchandise and food assortments including perishables, dry grocery, dairy and frozen items at discounted prices. The company was founded by George Draper Dayton in 1902 and is headquartered in Minneapolis, MN.

Investment Thesis:

- **Discount retailers have proven to be relatively cyclical proof.** With the global economy overheated and on the verge of a recession, consumers will look to discount retailers for daily needs and purchases. This may result in improved financial results than industry peers.
- **The company has shown historically strong cash flows and stable profitability.** Target has shown stable margins and revenue per retail square foot. This demonstrates the stability of the company and allows for continued dividend payments and other forms of capital being returned to shareholders.
- **The company has restructured its stores and has improved working conditions for workers.** The company has restructured its stores to allow for a better shopping experience. In addition, Target has committed to remodel an additional 600 stores by the end of 2020. Target has also committed to increasing minimum wage to \$15/hour which will increase employee satisfaction and thereby improve customer service.

Industry Drivers/Trend

Retail/Wholesale:

- Population demographics have shifted dramatically with an increasing millennial population. This demographic places more emphasis on ethically sourced and organic products that will both solve a problem and help the planet.
- The retail industry is continuing to shift towards online distribution and other omni channels. With Target's sixth consecutive year of 25%+ increased online sales, the company is positioned well to capture on this industry trend.

Competitive Advantages:

- Market leader in discount retailers
- Globally recognized brand
- Size advantage leading to reduced costs
- Industry leading inventory management and distribution networks

Competitors:

- Walmart Inc., Dollar Tree, Inc., Dollar General Corporation, Costco Wholesale Corporation, Fred's, Inc.

Customers:

- Grocery stores, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce

Barriers to Entry:

- **Inventory Management:** Incumbents have had a long history of improving inventory management and turnover. New entrants will have a tough time replicating efficient inventory management and will incur many costs doing so.
- **Asset Heavy Industry** – Target holds many traffic-heavy real estate locations. These locations prove as a barrier to entry as new entrants will find it difficult to lock down prime retail locations to generate sales.
- **Established Distribution Network** – Target has been able to improve drive up purchases and other non-traditional distribution networks. This established distribution network proves as a barrier to entry as it is difficult for new entrants to replicate these efforts in a short amount of time.

Officers & Directors:

Brian Cornell, Chairman & Chief Executive Officer; **Michael Fiddelke**, EVP & Chief Financial Officer; **John Mulligan**, EVP & Chief Operating Officer; **Paritosh Desai**, Chief Data & Analytics Officer; **Michael McNamara**, EVP & Chief Information Officer.

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Financial Summary:

Income Statement (USD millions, years ended January 31st)

	2015	2016	2017	2018	2019
Revenue	73,785.0	69,495.0	72,714.0	75,356.0	78,112.0
COGS	(54,210.0)	(51,170.0)	(53,350.0)	(55,523.0)	(57,221.0)
Gross Income	19,575.0	18,325.0	19,364.0	19,833.0	20,891.0
Profit before Tax	4,923.0	3,965.0	3,630.0	3,676.0	4,190.0
Net Profit	3,321.0	2,669.0	2,908.0	2,930.0	3,269.0
EPS (Diluted)	5.31	4.70	5.30	5.51	6.34
Dividends per Share	2.16	2.32	2.44	2.52	2.60

Balance Sheet

Total assets	40,262.0	37,431.0	40,303.0	41,290.0	42,770.0
Long-term debt	11,945.0	11,031.0	13,041.0	12,227.0	13,613.0
Total equity	12,957.0	10,953.0	11,651.0	11,297.0	11,833.0

Statement of Cash Flow

Cash from operations	5,844.0	5,436.0	6,935.0	5,973.0	7,117.0
Cash from investing	508.0	(1,473.0)	(3,075.0)	(3,416.0)	(2,944.0)
Cash from financing	(4,516.0)	(5,497.0)	(3,729.0)	(3,644.0)	(3,152.0)

Key Ratios and Figures (%)

Gross Margins	26.5%	26.4%	26.6%	26.3%	26.7%
Return on Invested Capital	21.5%	14.8%	15.4%	14.7%	16.0%

Source: Target 2019 Annual Report; Wall Street Journal



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