MASTER IN
FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH:
TARGET CORPORATION

BENJAMIN DE BEER

JUNE 2026

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SUPERVISOR:
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Abstract

This project evaluates Target Corporation in order to establish a formal investment recommendation for fiscal year-end 2027. The core valuation relies on a discounted cash flow framework using the Free Cash Flow to the Firm method, built with a 7.41% WACC and a 3.43% terminal growth rate. Various other methods were used to cross-check the outcomes, including both additional absolute models such as the FCFE, APV, and DDM, as well as market-based relative multiples. Target operates a 1,995-store network, which serves as the backbone of the company’s "stores as hubs" shipping strategy, supporting a digital sales channel that contributes to roughly 20% of the company’s revenue. Key competitive strengths include a $30 billion owned-brand portfolio, along with multiple successful shop-in-shop alliances such as those with Ulta and Starbucks. Margins remain exposed to a highly discretionary product mix, as well as retail theft and import tariffs. Ultimately, the primary FCFF valuation model yields a $133.52 price target, representing a 14% annualized upside relative to the March 30th closing price of $119.97, supported by peer P/E and EV/EBITDA ratios and a mean Monte Carlo valuation of $138.54. With the annualized upside potential of 14% exceeding the required hurdle rate, the stock receives a Buy recommendation, paired with a medium-low risk rating.

JEL classification: G10; G32; G34

Keywords: Target Corporation; Retail Sector; Equity Research; Valuation

Resumo

Este projeto avalia a Target Corporation com o objetivo de estabelecer uma recomendação formal de investimento para o final do ano fiscal de 2027. A avaliação principal baseia-se num modelo de fluxos de caixa descontados utilizando o método Free Cash Flow to the Firm (FCFF), estruturado com um WACC de 7,41% e uma taxa de crescimento terminal de 3,43%. Vários outros métodos foram utilizados para cruzar os resultados, incluindo tanto modelos absolutos adicionais, tais como o FCFE, APV e DDM, como múltiplos relativos de mercado. A Target opera uma rede de 1.995 lojas, que serve como a espinha dorsal da estratégia de distribuição "stores as hubs" da empresa, suportando um canal de vendas digitais que contribui para aproximadamente 20% da receita total. As principais vantagens competitivas incluem um portfólio de marcas próprias de $30 mil milhões, a par de múltiplas alianças bem-sucedidas de "shop-in-shop", tais como as parcerias com a Ulta e a Starbucks. As margens permanecem expostas a um cabaz de produtos altamente discricionários, bem como a furtos comerciais e tarifas de importação. Em última análise, o modelo de avaliação principal FCFF resulta num preço-alvo de $133,52, representando um potencial anual de valorização de 14% face ao preço de fecho de $119,97 em 30 de março, sendo este valor suportado por múltiplos de P/E e EV/EBITDA de empresas comparáveis e por uma avaliação média de Monte Carlo de $138,54. Com o potencial de valorização a superar o limiar exigido, a ação recebe uma recomendação de Buy, emparelhada com um perfil de risco médio-baixo.

Classificação JEL: G10; G32; G34

Palavras-Chave: Target Corporation; Setor de Retalho; Equity Research; Avaliação de Empresas

Acknowledgements

I would like to start by expressing my deepest gratitude to my supervisor, Professor João Jorge, for his continued guidance, insightful feedback, and sustained availability throughout this last semester. Whether clarifying initial challenges or reviewing early drafts, he was always available to meet and discuss at our convenience, and his patience was fundamental throughout this stressful period.

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Finally, this milestone would be meaningless without my family. I want to thank them deeply for their unconditional love and support throughout this entire academic period. I owe a special debt of gratitude to my mom, dad, and grandparents. Your endless encouragement and sacrifices provided the floor upon which I built my education, and without you, none of this would have been possible.

Abbreviations

AI: Artificial Intelligence

APV: Adjusted Present Value

B2B: Business-to-Business

BS: Balance Sheet

CAPEX: Capital Expenditures

CAPM: Capital Asset Pricing Model

CFS: Cash Flow Statement

COGS: Cost of Goods Sold

CPI: Consumer Price Index

CRP: Credit Risk Premium

D&A: Depreciation and Amortization

DDM: Dividend Discount Model

DEI: Diversity, Equity, and Inclusion

DIO: Days Inventory Outstanding

DPO: Days Payable Outstanding

EBIT: Earnings Before Interest and Taxes

EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization

EBT: Earnings Before Taxes

ERP: Equity Risk Premium

ESG: Environmental, Social, and Governance

EV: Enterprise Value

FCF: Free Cash Flow

FCFE: Free Cash Flow to Equity

FCFF: Free Cash Flow to the Firm

FYE: Fiscal Year End

GDP: Gross Domestic Product

IS: Income Statement

ITS: Interest Tax Shield

NI: Net Income

NOPAT: Net Operating Profit After Tax

NWC: Net Working Capital

NYSE: New York Stock Exchange

P/B: Price-to-Book Multiplier

P/CF: Price-to-Cash Flow Multiplier

P/E: Price-to-Earnings Multiplier

P/S: Price-to-Sales Multiplier

PP&E: Property, Plant, and Equipment

PV: Present Value

ROA: Return on Assets

ROE: Return on Equity

ROIC: Return on Invested Capital

SARD: Sum of Absolute Relative Differences

SBC: Stock-Based Compensation

SG&A / SGA: Selling, General, and Administrative Expenses

TGT: Target Corporation

TV: Terminal Value

WACC: Weighted Average Cost of Capital

WC: Working Capital

YoY: Year-over-Year

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Target Corporation

Ticker:	Current Price:	Target Price:	Recommendation:	Upside Potential:	Level of Risk:
TGT	$119.97 (30/03/2026)	$133.52 (30/01/2027)	Buy	14% (annualized)	Medium-Low

1. Investment Summary

We initiate a Buy recommendation for Target (TGT US) with a FYE2027 price target of $133.52, implying a 14% annualized upside potential to the March 30th price of $119.97. Our valuation is based on a DCF, particularly the FCFF method, supported by market-based multiples, where Target's P/E ratio of 15.2x trades at a slight discount to the peer median of 15.7x. The market has largely priced in Target's operational recovery following historical inventory volatility, however the stock still trades at a slight discount to peers, justifying an attractive risk-rewards profile and Buy recommendation under a medium-low risk classification.

Valuation Floor | Target's valuation is rests on its strong capital efficiency profile, with a ROIC that consistently holds a positive spread over its 7.41% WACC. This value creation is supported by high-margin initiatives, protecting the company from traditional retail margin erosion. Its $30 billion owned-brand portfolio allows for vertical integration, letting Target capture manufacturing margins and absorb supply-side price shocks. In addition, fulfilling digital sales via in-store pickups drastically lowers delivery costs whilst also promoting delivery speed and efficiency. Complementing the merchandise cash inflow is the company's retail media network (Roundel) and strategic shop-in-shop partnerships. These provide both foot traffic and revenue stability, contributing to the company's "dividend king" status and providing a reliable valuation floor for long term investors.

Valuation Ceiling | Despite these mentioned operational strengths, Target's focus on the US market exposes it to domestic macroeconomic shifts, leaving the company without geographical hedging of international sales. Roughly half of the company's product mix is composed of cyclical discretionary segments facing strong pressure from cooling housing markets, high mortgage rates, and cautious consumer spending. On the supply side, trade policy volatility and unpredictable tariffs continue to present ongoing risks to the Target's cost structure, while international shipping complications can also easily tie up cash, driving up DIO. Given that costs cannot easily be passed on to price-sensitive consumers without harming sales volumes, Target remains vulnerable to short-term macro shocks. Until discretionary demand recovers or trade costs ease, the stock presents short term cyclical friction, however the annualized 14% upside potential, surpasses the required 12.5% hurdle, supporting the Buy recommendation.

2. Business Description

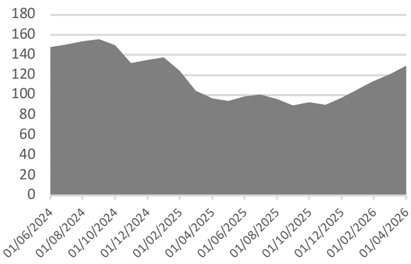
Target Corporation is an American general merchandise retailer that operates both online and through its nationwide network of physical stores, exclusively in the US, which totalled 1,995 as January 31st, 2026, with over 30 million weekly visits to its stores. The company's roots trace back to 1902, when it was founded in Minneapolis as the Dayton Dry Goods Company, where it is still headquartered today. The first four Target branded stores opened in 1962, and five years later, in 1967, the company was listed on the New York Stock Exchange. In 2000, the company officially adopted the name Target Corporation, moving away from its former Dayton Hudson Company identity. Today, Target operates stores in all 50 states and D.C., with much of the US's population living

Table 1: Investment Recommendation

Price Target FYE2027	$133.52
Upside (Annualized)	14%
Closing price (March 30, 2026)	$119.97
Stock Exchange	NYSE
Ticker	TGT
Shares Out.	451M

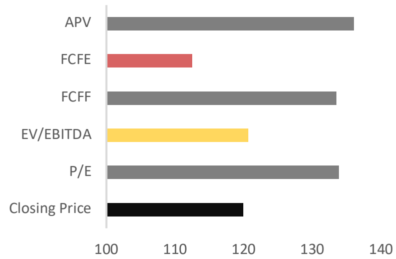
Source: Author Analysis & Bloomberg

Figure 1: 3 Year Price Evolution ($)



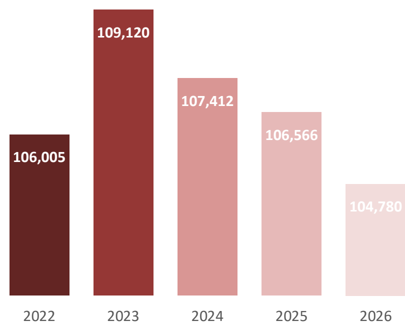
Source: Author Analysis & Bloomberg

Figure 2: Price Target ($)



Source: Author Analysis & Bloomberg

Figure 3: Revenue ($M)



Source: Author Analysis & Company Data

within 10 miles of a Target store, highlighting both its scale and accessibility to American consumers.

They operate its larger regular stores as well as a few smaller scale stores in urban areas and near college campuses. While the stores format has similarities to Walmart's, Target differentiates itself through its superior shopping experience. This leaves the brand positioned slightly higher, yet continuing to focus on the middle-class American household.

2.1 Margins and sectors

Target has historically sat in the top 10 of US retailers' revenue wise, when looking at its market cap at around $50b, however, it falls far short of competitors such as Walmart or Costco, which boast far greater figures of around $1 trillion and 440$ billion respectively. The retail industry in the US is highly competitive, where within the Retail (Consumer staples) industry Target holds a market share of around 5.5%, with Costco and Walmart reaching figures around 14% and 37%. The company operates under a single reportable segment, integrating its online and physical retail channels. The product mix is well-diversified across apparel & accessories (15%), beauty (13%), household essentials (18%), hardlines (15%), home furnishings & decor (15%), and food & beverage (24%). Its stores combine goods from both other well-known brand as well as its portfolio of owned brands. Aside from the company's physical stores, its online presence has also grown since the e-commerce platform being established in 2000. Net sales in recent years have ranged from 100-110 billion dollars, with a decline in recent years after a peak in FY2023, with around 20% of those being digitally originated, and the 4th quarter being the highest performing due to the holiday season. Whilst revenue has dropped off from 2023, gross margins have improved to around 28 and 29%, after a drop to 24.6% in FY2023. This drop can be attributed to inventory build-up from the pandemic era demand resulted in necessary mark downs, negatively affecting margins, as well as supply chain and freight cost increases.

2.2 Supply chain and global sourcing

Target currently maintains a global sourcing operation primarily focused on its owned-brand portfolio, which contributes an annual $30 billion in sales. While China remains the largest source of imported merchandise, the company is actively working on diversifying its sourcing with the aim of mitigating geopolitical and tariff-related risks. This has involved shifting to other Asian countries, particularly Vietnam and Bangladesh, as well as Central America. In order to manage this complex network, Target's sourcing operates from offices in 13 countries worldwide, where around half of the company's merchandise is sourced from outside the United States.

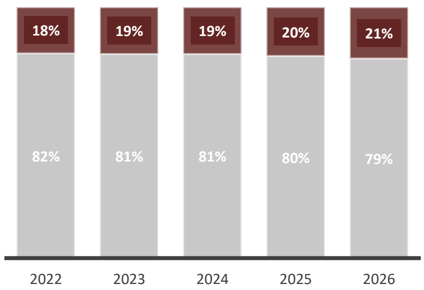
2.3 Logistics

A major competitive advantage for Target is its "stores-as-hubs" model, with almost all online orders being fulfilled through its 1,995 physical stores, whereas traditional retailers rely heavily on separate e-commerce warehouses. This significantly improves Target's delivery speed and reduces high shipping and handling costs that may be associated with quick delivery. To further bolster this strategy, Target has increased its supply chain facilities from 59 in 2024 to 66 in 2025.

2.4 Cost Management

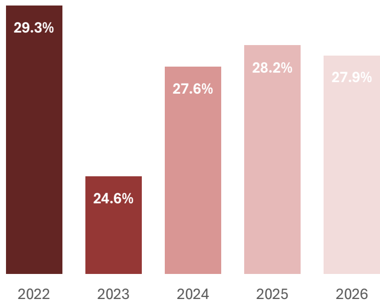
The global supply chain is currently facing significant inflationary pressure, particularly in freight and manufacturing costs. Target is navigating a volatile trade environment where tariffs average around 17%, with a 10% universal tariff recently implemented. Cumulative with these tariffs, the current conflict in Iran further contributes negatively by impacting the global trade market with increased oil and shipping costs. Mitigating these impacts are efficiency initiatives by Target which have already yielded roughly $2 billion in savings so far; these funds are being used to further improve automation and the "stores-as-hubs" infrastructure.

Figure 4: Sales Channel



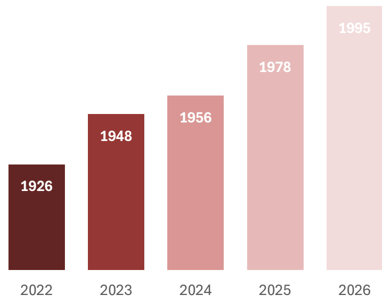
Source: Author Analysis & Company Data

Figure 5: Gross Margin



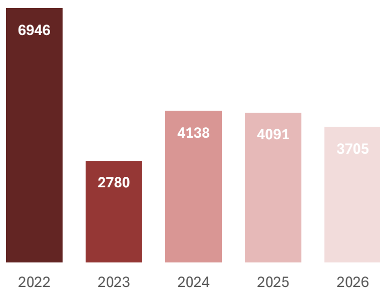
Source: Author Analysis & Company Data

Figure 6. Number of Stores



Source: Author Analysis & Company Data

Figure 7. Net Income ($M)



Source: Author Analysis & Company Data

2.5 Drivers

Target's revenue is determined by a variety of factors, with two significant drivers being store traffic and average ticket size. The drivers are influenced by a number of factors, such as the number of stores, marketing, and loyalty programs. The company recently relaunched its loyalty program, Target Circle, which has proven to be a strong driver of revenue growth. The program has over 100 million members currently, with members spending on average three times more than non-members. Its paid subscription, Target Circle 360, offers additional benefits such as same-day delivery, leading to customers spending around eight times more than non-members. This program also brings alternate benefits such as strengthening the relationship between the company and its customers, encouraging repeat purchases and long-term loyalty. The data collected from enrolled members also allows for more effective marketing.

Another driver of higher revenue is the company's product mix. Cheaper essential goods provide a consistent and recurring revenue base, even during weaker economic periods, where therefore GDP isn't as much of a driver, but rather inflation, as consumers are still buying the products even if the economy isn't doing great. Target balances this stability with discretionary goods, these offer higher margins, however they are also more cyclical and sensitive to changes in consumer confidence. The company's owned brands account for roughly one-third of total sales and deliver higher margins than national brands sold in its stores.

Digital revenue has represented around 20% of sales in recent years, offering another growth channel that complements Target's stores. The room for e-commerce growth in the US market is still immense and remains as an area where Target can significantly drive up its revenues, especially given the number of competitors also trying to get ahead. Stores act as fulfilment hubs for online orders, improving efficiency and reducing shipping and handling costs associated with home deliveries.

Through efficiency initiatives, Target has saved around $2 billion, contributing to the gross margin increase to 28% from 25% in FY2025. This supports its planned $5 billion investment aimed at further improving speed and operational efficiency in FY2027. The Roundel media business also contributed about $2 billion in revenue in FY2026, with expectations of this value doubling by the end of the decade. While new integrations such as Roundel and Target Circle 360 bring in additional revenue streams, they also involve ongoing costs involving maintenance and scaling up systems.

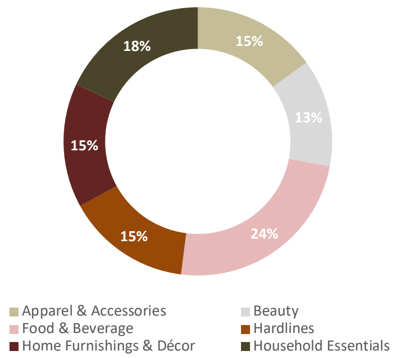
Target's global supply chain is another key factor affecting profitability. It exposes the company to risks such as fluctuations in freight and supplier costs, due to freight volatility or tariffs, which can influence pricing strategies and consumers' willingness to purchase discretionary products. Inventory shrinkage, from theft, damage, or other losses, also remains a significant expense. Stores experiencing sustained shrinkage may eventually close, leading to potential impairments that negatively affect financial performance.

Targets SG&A expense was 20.6% in FY2025, up from 20% and 19% in the two previous years, due to several factors such as increased wages, benefits, etc., with efficiency improvements, helping mitigate the extent of this increase.

2.6 Strategies

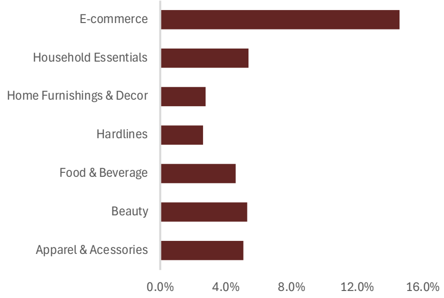
Target's ambition is to further its store network, having already opened 17 new stores during 2025, intending to add another 30 in 2026 together with the renovation of some existing ones. Though some retailers may stop operating physical stores and shift its focus to online sales, Target is advancing with a strategy that encompasses both, where its stores play an important role in linking the digital side to the customer. The company is also exploring opportunities created by the likes of Target Circle, for instance, through same-day delivery. Management believes that the respective moves will bring an additional $15 billion in growth by the close of the decade and will at the same time help increase the variety of Target's revenue streams. In addition, projects aimed at improving efficiency are going to be the foundation of these endeavours, with the capital

Figure 8: Product Mix



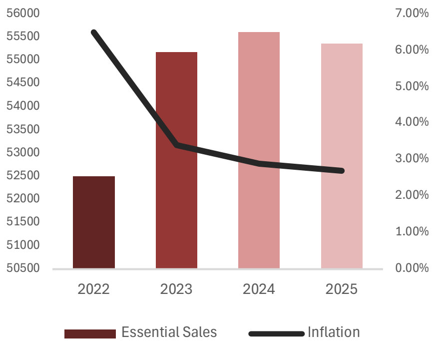
Source: Author Analysis & Company Data

Figure 9: Segment Forecasted Growth



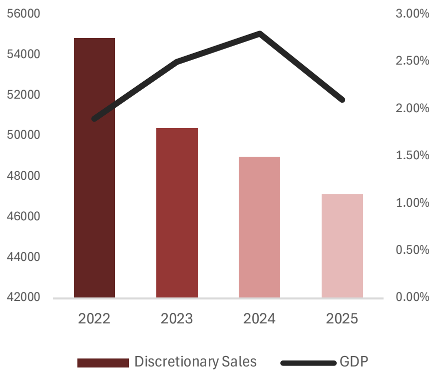
Source: Author Analysis & Statista

Figure 10: Essentials Growth vs Inflation



Source: Author Analysis, Company Data & Investopedia

Figure 11: Discretionary Growth vs GDP

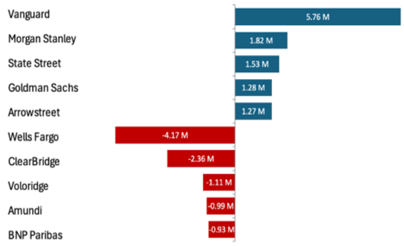


Source: Author Analysis, Company Data & Statista freed up being used for reinvestment. Sustainability continues to be a significant focus for Target, with the strategy being seen as an important part of long-term brand trust and reputation strengthening, especially with environmental and ESG factors becoming increasingly more important to consumers and investors.

2.7 Ownership

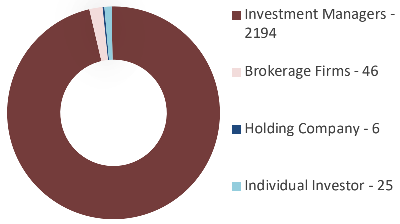
Target was originally a family-owned business, however that is no longer the case. Today, there is no longer a controlling family, nor is there significant insider ownership, with management and employee holdings coming mainly through incentive-based compensation programs. Around 97% of outstanding shares are held by institutional investors, with the three largest being Vanguard, BlackRock, and State Street. These institutions, each holding more than 5% of the company's shares, file Schedule 13G reports with the SEC, indicating the existence of passive ownership, rather than an intention to influence control. Passive ownership is further supported through Target's inclusion in the S&P 500 index, which results in additional holdings through index funds and ETFs.

Figure 12: Market Share



Source: Author Analysis & Refinitiv

Figure 13: Ownership Composition



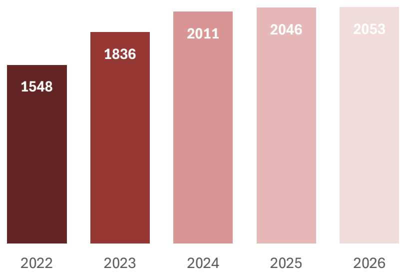
Source: Author Analysis & Refinitiv

Instances of active ownership or activist activity at Target are relatively rare. However, there are recent reports involving an activist shareholder proposal urging that the outgoing CEO does not remain on the company's board of directors, highlighting that there is occasional engagement from active investors.

Target's governance structure is designed to ensure long-term alignment between executive actions and shareholder interests. The Board of Directors demonstrates a high level of independence, with 11 of its 12 members being of independent nature. Furthermore, the board prioritizes diversity, currently having a 33% female and 33% ethnic representation. Executive compensation is structured in a way that ensures accountability, with pay tied to not only financial performance, but also specific ESG metrics, including DEI and sustainability goals.

Target's "Dividend King" status is a central component of its value proposition to shareholders, reflecting a long-standing tradition of consecutive annual dividend increases irrespective of declines in revenue or net income. This return of capital to shareholders is a primary driver of institutional-heavy investing, with dividend increases expected to continue for the foreseeable future. Historically, dividends per share have remained above the peer average, providing not only a stable valuation floor but also reinforcing management's alignment with long-term shareholder interests.

Figure 14: Dividends Paid ($M)



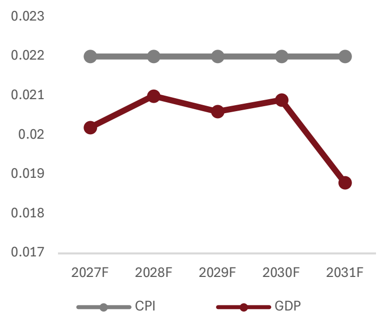
Source: Author Analysis & Company Data

3. Industry Overview and Competitive Positioning

3.1 Macroeconomic outlook

Target, in contrast to other major competitors, focuses solely on the U.S. market, unlike Walmart or Amazon, for example. This leads to Target being uniquely sensitive to U.S. macro indicators, such as interest rates, GDP, and inflation, making the company's valuation tightly linked with the Federal Reserve as well as the U.S. housing and stock markets. GDP is expected to sit around 1.8%-2% throughout the forecasted period, signifying a rather low but not abnormal growth rate. Inflation is expected to hover around 2.2%, slightly above the Federal Reserve's 2% target. Retail sales growth is expected to slow in 2026 to 3.5%, down from 4% in 2025, with users continuing to prioritize value-seeking purchases. Companies, however, may have to inflate prices due to tariffs, where costs may have previously been temporarily absorbed. Given the Supreme Court's ruling invalidating several 2025 emergency tariffs by the Trump administration, companies such as Target that supply goods from Asia were given a positive upside. A 10% universal tariff was placed in response; however, it is due to expire July 24th, bringing the average tariff rate to around 6.7%. Whilst the temporary tariffs are expected to drop, companies may have to increase its prices to handle this short-term tariff implemented. The second half of 2026, however, presents a strong opportunity for recovery. While this lack of diversification can introduce certain risks, it also mitigates the need for the

Figure 15: CPI & GDP

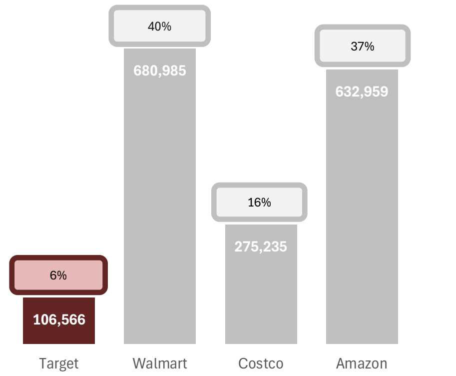


Source: Author Analysis, Congressional Budget Office & Statista extensive geographical hedging that other companies must engage in. Minimum wage is another aspect to consider, with states such as Florida, increasing reaching the $15/hour mark, over double the $7.25/hour federal minimum wage.

3.2 Industry Dynamics

Oligopoly and Digital | The US retail market can be defined as an oligopoly dominated primarily by Walmart, Amazon, Costco and Target, creating the perfect environment for intense competition, leading to price wars and a race for digital supremacy in a time where sales channels continue to further shift online. The covid 19 pandemic acted as a permanent catalyst for consumer behaviour, shifting sales channels online and forcing retailers to manage high digital fulfilment capabilities as a norm and no longer as a luxury for customers.

Figure 16: Market Share ($M)

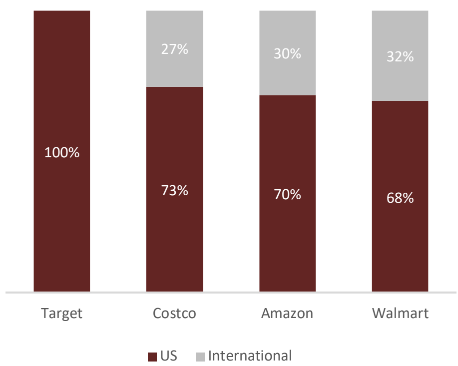


Source: Author Analysis & Bloomberg

Alternative Revenue Sources | A defining trend in the sector is the emergence of retail media networks, where companies are leveraging first party consumer data to sell targeted advertising space to vendors. This offers a high margin revenue stream, competing against the likes of Amazon and Google, and providing a margin buffer to offset the lower profitability that comes with e-commerce sales. Furthermore, the integration of fintech services, such as credit products or interchange fee sharing, allows for retailers to diversify its income away from core merchandise sales.

Market shift | The industry is currently experiencing a "barbell effect", with consumers shifting to either discount stores or high-end premium retailers, leaving companies in the mid-tier vulnerable. To manage this polarization, successful players are focusing on non-discretionary demographics. The market is seeing a significant wealth shift as millennials and Gen Z become the primary drivers of spending in the US. Retailers successfully capturing this consumer base, via a cheap chic value proposition, with high end goods at affordable prices, can lead with PE premiums, due to the long-term sustainability of its consumer life cycle.

Figure 17: US vs. International Sales



Source: Author Analysis & Statista

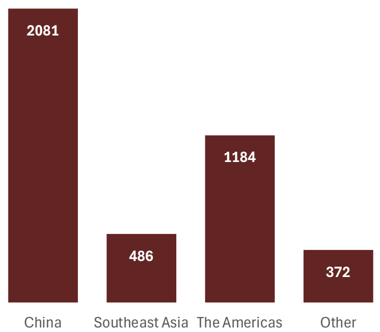
Inventory Shrink | Over the past few years, particularly during the pandemic, inventory shrink, driven by theft and organized crime, has led to a significant industry headwind. Whilst shrink rates are beginning to normalize and return to pre pandemic levels, the heavy capital expenditures required in security infrastructure cannot be taken lightly.

Omnichannel | With the technological advancements this century, consumers have become accustomed to high convenience and a seamless connection between mobile apps and physical stores. Order pickups and delivery are no longer considered a differentiator but rather a industry standard. As a result, in store pickups and same day delivery have become essential components of the retail value chain, requiring significant expenditure in the technology and logistics.

3.3 Supply side

Sourcing Diversification | Target mitigates geopolitical and regional risk via operating complex supply chain network operating across 13 countries. While China remains the primary source for imported goods, the company is actively shifting production to other Asian countries such as Vietnam and Bangladesh as well as Central America in order to hedge long term tariff volatility and concentration risk.

Figure 18: Manufacturing Facilities



Source: Author Analysis & Company Data

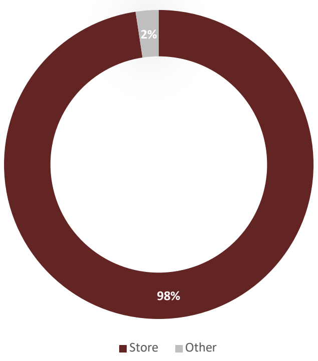
Supply Chain Risks | The global supply chain remains highly vulnerable to inflationary pressures worldwide on freight and manufacturing costs. Vertical integration is strategically used to avoid excessive margin evaporation that may occur when using third party suppliers, particularly during geopolitical events that disrupt major shipping channels.

Vertical Integration | A crucial component of Target' supply strategy is its $30 billion owned brand portfolio, including labels such as Cat & Jack and Good & Gather. Acting as the manufacturer, Target manages to capture both the final sale and manufacturer margin, aside from gaining total control over quality control and coordination, as well as acting as a vital tool to combat the margin squeeze often seen with national brands.

Online Fulfilment | Unlike retailers relying on separate e-commerce warehouses, Target utilizes its 1995 stores to fulfil nearly all of its online orders. This logistics model reduces last mile shipping costs, as well as a providing top tier efficiency and speed rivalling the likes of companies such as Amazon.

Infrastructure | To support this model, Target has expanded its supply chain facilities from 59 in 2024 to 66 in 2025. A planned $5 billion capex investment in FY2027 is expected to further improve efficiency and enhance automation, ensuring these high fulfilment speeds can be sustained as digital volume grows in the future.

Figure 19: Sales Fulfilment Channel



Source: Author Analysis & Company Data

3.4 Demand Side

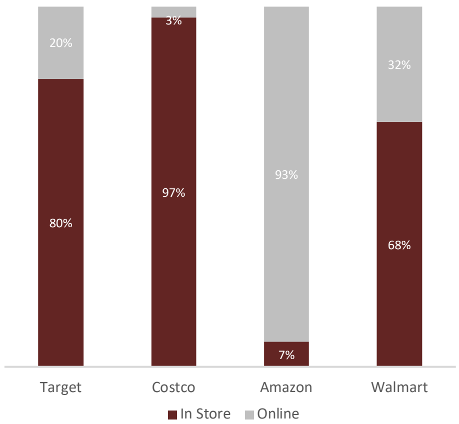
Essential vs Discretionary Goods | Targets revenue is stabilized with its essentials (Food & Beverage, Beauty, and Household Essentials), providing recurring traffic as well as stable inflation resistant revenues. This is balanced by its higher margin “Discretionary goods (Apparel, Home, and Hardlines) which while being more profitable, are cyclical and highly sensitive to shifts in consumer confidence, inflation and interest rates.

Shop in Shop | Target has formed strategic partnerships with the likes of Ulta Beauty, Disney and Starbucks, transforming a visit to Target much more productive for consumers, this strategy also provided diversified revenue streams, as well as increasing traffic from consumers who may not have even been planning of shopping Target in the first place.

Digital Ecosystem | Digital revenue over the past few years has consistently accounted for around 20% of sales, supported by the Target Circle loyalty program as well as the more recent Circle 360 paid membership. Additionally, B2B sales through Roundel and the Target Plus marketplace allow the company to scale its demand footprint and take advantage of its existing technological systems.

Seasonal Revenue | Demand remains highly concentrated around the 4th quarter holiday season, as well as back to school windows. This high seasonality required the company to have rigorous planning of its inventory, with forecasting failures leading to significant inventory shrinkage or heavy markdowns due to excessive inventory, significantly impacting the gross margin.

Figure 20: Physical vs Online Sales



Source: Author Analysis & Company Data

3.5 Pricing

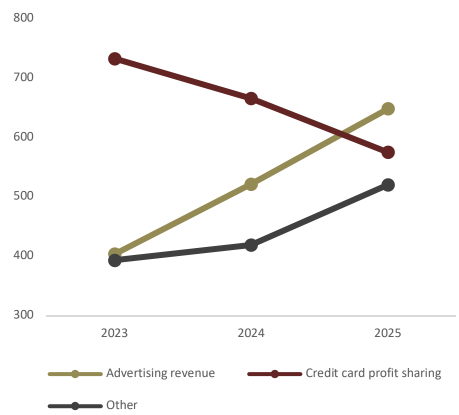
Dynamic Pricing | The retail industry, at its core often uses competitor-based pricing, with Target now using real time AI tools to consistently update its pricing and remain competitive against the likes of Amazon or Walmart on national brands. This ensures Target remains a price taker in essential categories to protect market share and maintain store traffic.

Value based pricing | For lifestyle and apparel segments, Target shifts to a value-based strategy, pricing items on perceived customer value rather than simply production costs. This allows for higher premiums, especially given its cheap chic portfolio.

Margin protection | For the company's owned brands, they act as a price setter, given that there are no perfect substitutes at other retailers, Target has the flexibility to set prices that provide the company much larger margins, far outperforming national brands.

Mitigating cost hikes | The ability to act as a price setter for its owned brands provides a critical buffer during periods of rising labour or freight costs, allowing for some cost absorption, especially where national brands may impose hikes that Target must take.

Figure 21: Other Revenue Sources



Source: Author Analysis & Company Data

3.6 5 Forces of Porter

Rivalry Among Competitors – Very High | The U.S. retail market is an oligopoly dominated by Costco, Walmart, Target, and Amazon, with growth typically driven by grabbing market share from rivals. Price wars are the norm given the intense competition, creating the need for loyalty programs such as Target Circle to establish a stable customer base. As mentioned previously, big-box stores are characterized by high fixed costs, further intensifying the need to fight for every dollar of revenue. Target's private-label brands allow for a degree of rivalry avoidance by offering differentiated, niche products that are not available through direct competitors.

Bargaining Power of Buyers – High | There are little to no switching costs in the retail sector, allowing customers to move between stores easily, often accompanied by low brand loyalty. The information era has also provided consumers with easy access to online price comparisons, thus enabling them to choose the cheapest or most convenient option at any given time. To some extent, ecosystems like the RedCard discount and Target Circle make it psychologically more difficult for consumers to switch, providing Target with a slight buffer against high buyer power.

Bargaining Power of Suppliers – Low | Target operates at a grand scale, which allows for significant leverage over small and medium-sized vendors. Combined with a global and diverse supply chain network, the company has the ability to leverage its connections if suppliers demand too much. Furthermore, vertical integration means Target acts as its own supplier for a large portion of its offerings, significantly weakening the bargaining power of external companies. The main exception however remains, with brands like Apple, where few alternatives exist, Target must carry these products to maintain its status as industry standard.

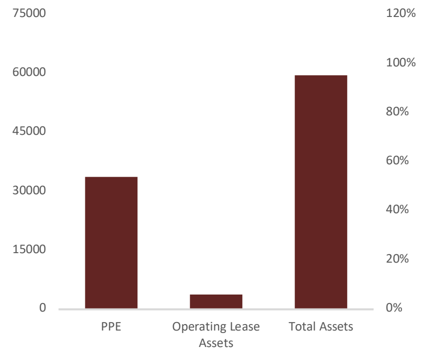
Threat of New Entrants - Low | Entering the retail industry requires a massive upfront investment due to high capital expenditure requirements. Logistics is another significant hurdle, requiring not only capital but also a vast information database to manage suppliers and understand consumer demand. New entrants also suffer from a lack of brand recognition. Target's brand equity, for example, took decades of strategic positioning to build and cannot be easily replicated by a newcomer.

Threat of Substitutes - Medium | Consumers have demonstrated a strong shift toward the service economy, looking to spend more on experiences rather than on material goods. Discount stores such as Aldi in the grocery sector and Shein in ultra-cheap apparel pose a strong threat to Target, with these companies continuing to grow through undercutting Target's pricing. Target has historically mitigated this to an extent by integrating store-in-store concepts such as with Ulta or Starbucks, creating a more complete shopping experience, helping absorb the substitute effect.

Figure 22: Porter's 5 Forces

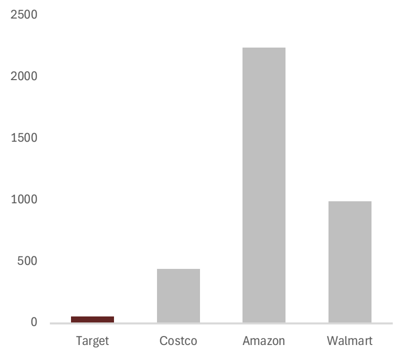
Source: Author Analysis

Figure 23: Fixed Asset Intensity ($M)



Source: Author Analysis & Company Data

Figure 24: Market Capitalization ($M)



Source: Author Analysis & Bloomberg

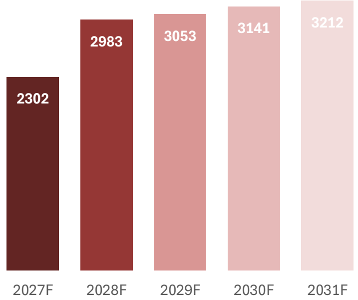
3.7 SWOT Analysis

STRENGTHS	WEAKNESSES
– Robust owned brand portfolio: generating over 30$ billion in annually in sales. – Unique market positioning: blending premium shopping with affordable pricing, creating a "cheap chic" niche. – Efficient model: utilizing stores as hubs for nearly all online orders, creating fast and reliable delivery. – Diversified revenue streams: Roundel (Retail media) and RedCard (financial service) complement merchandise sales.	– Discretionary Product Mix: heavy reliance on non-essential mix makes the company vulnerable to shift in spending during economic downturns. – Geographic Concentration: operating exclusively in the US, the company lacks the ability to hedge domestic economic difficulties.
OPPORTUNITIES	**THREATS**
– Retail Media Expansion: Roundel is expected to double in revenue by the end of the decade. – Store in Store Partnerships: Expanding partnerships with companies like Ulta and Disney can help drive foot traffic. – Market share capture: The barbell effect provides a chance to attract value seeking customers as traditional rivals shift its strategies.	– Inventory shrink; retail crime and shoplifting have significantly affected margins and forced speeding on better security systems. – Intense price competitions: constant pressure from big companies such as Walmart and Amazon creates pressure on profit margins through aggressive price cutting wars.

4. Valuation

For the Valuation of Target, a FCFF model was used as base case valuation method, this model was found to be the most suitable due to characteristics such as relatively stable growth rates, a capital structure with a significant presence of both debt and equity, and predictable cash flows. The final recommendation is to buy the stock. While the valuation was based on the FCFF model, other relative models were addressed such as the APV, DDM and the FCFE models, which highlighted different risks to consider. Aside from these relative approaches, multiples were also used, comparing to Target's peers, providing a view that Target's equity is strongly undervalued. In reaching the valuation conclusions the stock was assumed to be of medium-low risk, this decision was based on conclusions seen further on in the report addressing firm risks, as well as very strong ESG performance, supporting the long term sustainaiblity of the firms value. Data was mainly sourced from the Bloomberg Terminal, with only certain market forecasts coming from alternative sources such as Statista. The forecast horizon covers 5 years from FY2027 to FY2031, with an additional year in 2032 representing the terminal value. The historical data used, to maintain consistency also then went 5 years back, covering FY2022 to FY2026.

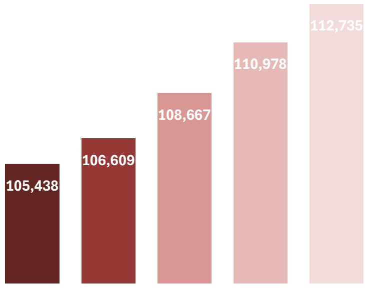
Figure 26: FCFF Forecast ($M)



Source: Author Analysis

Revenues | Revenues are the main component which will determine the final investment recommendation, not only being the largest figure on all the financial statements, but also affecting so many other components, as well as the capacity to reinvest. Target has already managed to build up its digital segment; however, it has started to stagnate while the market continues to grow. This is an opportunity for target to grow, however, the large competition in this industry has led to an expectation that Target's market share won´t be increasing in this area. Regarding in store sales, Target has a variety of types of goods they sell, this vast diversification of both essential and discretionary goods, allows for a sustained growth in sales. Market expectations for these sectors are quite positive, and although Target's market share may decline in some, overall, the prediction is of a relatively positive growth rate in sales. For the forecasting of revenues, a top-down approach was used, multiplying market share by market size, using forecasts from the Statista website. As mentioned above, the market share for the digital component was held stable throughout the forecasted period, whist the remaining segment's market shares were assumed to grow at the 5y historical rate, gradually stabilizing towards stable market share in the terminal year.

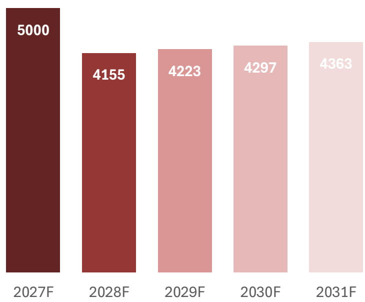
Figure 25: Revenue Forecast ($M)



Source: Author Analysis

CAPEX | CAPEX is forecasted to have a major increase in FY2026, with a return to 2023 levels. The company aims to continue investing, with new store openings and store remodels, expected to continue throughout the forecasted period and being the main cost drivers to sustain the CAPEX levels. Aside from these main components IT and supply chain investments are set to remain at elevated levels, with the current digital climate and globalization and conflict, also keeping the supply chain an ever-constant area to update. Capex is expected to remain high, gradually shifting towards a historical percentage of revenue in the final year. These costs, while high are expected to be sustainable, with cash expected to remain at healthy levels, and a growth in dividends paid expected to remain, an aspect which Target is historically known for.

Figure 27: Capex Forecast ($M)



Source: Author Analysis

Cost of Equity | The cost of equity was estimated using the Capital Asset Pricing Model (CAPM). For the risk-free rate, the 10y US Treasury Note yield of 4.31% was used, sourced from Bloomberg, and maintained constant over the forecasted period, reflecting the long-term nature of the cash flows and its status as a going concern. As Target operates solely in the US, the Equity risk premium was obtained using Professor Aswath Damodaran's implied ERP for the US market, and the corresponding bottom-up Beta for the Retail (General) industry. This approach offers a forward-looking perspective, rather than using historical data with a market proxy such as the SP500, isolating the systematic risk for the business model from firm specific volatility. The cost of equity ended with a value of 8.72%, maintaining at that level throughout the forecast period.

Table 2: Cost of Equity

Cost of Equity	
Rf	4.31%
Rm	10%
Beta	0.9890
Re	8.72%

Source: Author Analysis & Damodaran

Cost of Debt | The cost of debt was estimated using a market-based approach, summing the 10-year US Treasury Note yield of 4.31% with an implied default spread of 0.78%. The spread was sourced for Damodaran's credit rating data, consistent with Target's A2 rating from Moody's. This resulted in a pre-tax cost of debt of 5.09% and an after-tax cost of debt of 4.00%, after applying a 21% marginal tax rate. This rate was maintained throughout the forecasted period, reflecting the stable capital structure and credit profile.

WACC | The WACC was also subsequently calculated using the cost of equity and debt, using for the weights the book value of debt, which is assumed to trade at par given the strong credit rating of the company, and market value of equity, then considering the tax rate of 21%, used in the income statement assumptions, resulting in a WACC of 7.41% and an unlevered cost of capital of 7.71%. Since the capital structure is forecasted to remain relatively stable, this same WACC and cost of capital was used for all the forecasted years.

Terminal Growth | Two separate terminal growths were calculated, on for the firm and one for equity. The firm growth rate, involved looking at the reinvestment value, dividing it by NOPAT to get the reinvestment rate and multiplying it by ROIC to get the growth rate. For the equity the changes were rather than using NOPAT, Net income was used and ROE instead of ROIC. For the terminal growth determination, the last year's growth rate was used, leaving a terminal growth rate of 3.43% for the firm and 3.08% for equity.

4.1 Absolute Valuation

Two separate terminal growths were calculated, on for the firm and one for equity. The firm growth rate, involved looking at the reinvestment value, dividing it by NOPAT to get the reinvestment rate and multiplying it by ROIC to get the growth rate. For the equity the changes were rather than using NOPAT, Net income was used and ROE instead of ROIC. Four absolute methods were used to value Target's share price, the FCFF, FCFE, APV, and DDM. All these methods have its strengths, however due to Target's stable cash flows, combined with debt and equity presence, the FCFF method was chosen, with volatility in net borrowings over the forecasted year making the FCFE method unpredictable (Damodaran, 2007). The constant growing dividends make the DDM suitable to an extent, however due to factors such as a significant share repurchase program offering a substantially different conclusion, therefore considered as an outlier for valuation purposes (Damodaran, 2007). Values were calculated and discounted to FYE2027 and compared to the Bloomberg share price displayed March 30th, 2026, and considering the shares outstanding as of the latest Target reports.

FCFF | The FCFF was derived from the NOPAT, adding back non-cash expenses such as D&A and SBC, as well as deducting increases in NWC and CAPEX. These findings were a decline from the first to the second forecasted year, then a small stable growth in the subsequent years. After discount using the WACC, the enterprise value was reached to which the net debt was deducted to calculate the equity value. The conclusions showed a price of $133.52, corresponding to a 14% annualized return.

APV | The APV model provided an alternative approach considering the interest tax shield and the FCFF discounted at the unlevered cost of capital of 7.71%. This resulted in a value just slightly above that of the FCFF method, with a value of $136.03, and a 16% annualized return. This method, like the FCFE method, was used to triangulate results, not as a primary valuation tool, due to the stable capital structure (Inselbag & Kaufold, 1997).

FCFE | The FCFF method was prioritized because it explicitly incorporates the value of the interest tax shield within the WACC, providing a clearer view of the enterprise value under a target capital structure and intense Capex. On the other hand, the FCFE method, while capturing the tax shield through Net Income, is more susceptible to volatility in net borrowings and share repurchases, which accounts for its more conservative valuation of $113, presenting a 7% annualized downside potential.

Table 3: Cost of Debt

Cost of Debt	
Rf	4.31%
CRP	0.78%
Rd	5.09%
Rd (after tax)	4.00%

Source: Author Analysis, Moody's & Bloomberg

Table 4: WACC

WACC	
Re	8.72%
Rd	5.09%
WACC	7.41%

Source: Author Analysis

Table 5: Terminal Growth Rates

Terminal Growth (Firm)	
	3.43%
Terminal Growth (Equity)	
	3.08%

Source: Author Analysis

Table 6: FCFF Valuation

FCFF	
Equity Value	$60240M
Share Price	$133.52
Market Price	119.97
Buy	14%

Source: Author Analysis & Bloomberg

Table 7: APV Valuation

APV	
Equity Value	$61374M
Share Price	$136.03
Market Price	119.97
Buy	16%

Source: Author Analysis & Bloomberg

Table 8: FCFE Valuation

FCFE	
Equity Value	$50763M
Share Price	$112.52
Market Price	119.97
Sell	-7%

Source: Author Analysis & Bloomberg

DDM | To complete the absolute valuation approaches the DDM model was used, resulting in a very negative price target, $76.2, representing a 42% downside potential. This method, whilst being included in the report, was not used as a main valuation method due to several factors. The DDM model fails to consider share repurchases, which has and is forecasted to continue to be a significant way in which Target is returning capital to shareholders. Also, the strong Capex investment, whilst creating future growth, is interpreted as a loss for the DDM model.

4.2 Relative Valuation

For the peer allocation, a selection of peers was extracted from Bloomberg which had characteristics correspondent to Target's, such as the location and industry, with the SARD (Sum of absolute relative differences) model subsequently being used to filter down to 5 final peers (Knudsen et al., 2017). This approach narrowed down 5 peers based on several factors: ROE, Net debt to EBITDA, Revenue growth, EBIT/Sales, and Market capitalization. The peers resulting from this model were Walmart, Kroger, Dollar General, Dollar Tree, and BJ's Wholesale Club. Following the peer allocation, market multiples were extracted from Bloomberg, to establish a median level, with which price values for Target could be calculated. This method was utilized not as the sole driver for the final investor recommendation, but rather with the aim of cross-checking with previous DCF models, providing a market-based validation for the values reached.

Table 9: Peer Selection

Peers
Walmart
Kroger
Dollar General
Dollar Tree
BJ's

Source: Author Analysis

EV/EBITDA | Retail companies, in this case more relevantly the peers selected, have varying capital structures. EV/EBITDA is a commonly used multiple by analysts looking to value a company for a variety of reasons, such as its increased neutrality to leverage. It permits the analysis of a company and comparison before aspects such as taxes and capital structure is considered. Target's EV/EBITDA currently sits at 1% above the peer median, indicating the stock has reached relative parity with its peer group. This convergence demonstrated the market has largely priced in Target's operational recovery following historical volatility. It indicates investors are now valuing Target's core operations., supply chain infrastructure and real estate, with an established stable valuation floor now being in place for the company.

Table 10: EV/EBITDA Multiple

EV/EBITDA	
EBITDA	7917.82
Avg. Peers	8.36
EV	66192.99
Debt	16946.24
Cash	5810.58
Equity	55057.34
Shares Outstanding	451
Price	120.85
Market Price	119.97
Reduce	1%

Source: Author Analysis & Bloomberg

P/E | The P/E multiple is another often used by analysts to value companies. The aim is to analyse how much investors pay for each dollar of earnings, in this case the multiple gives a price target of $134.15, 12% above that of the market in line with the FCFF valuation. The upside suggests that while Target trades at a PE of 15.2x, an increase to 15.7x, in line with the peer median is justified, via its share repurchase program, which provides a consistent boost to EPS, and "dividend king" status which warrants a premium over more volatile competitors.

Table 11: P/E Multiple

P/E	
EPS	8.54
Average Peers	15.70
Price	134.15
Market Price	119.97
Hold	12%

Source: Author Analysis & Bloomberg

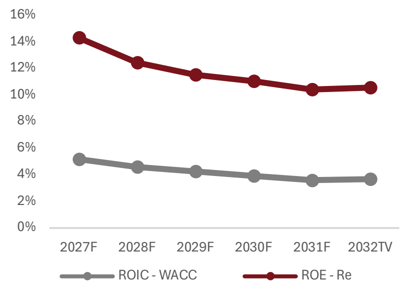
Among the array of available market multiples, P/E and EV/EBITDA were prioritized as cross checks. P/E directly captures equity level value creation and EPS impacts of Target's share buyback program, while EV/EBITDA provides a capital structure neutral comparison across peers with varying leverage profiles. Other traditional multiples were excluded due to structural distortions including differences in owned vs leased real estate strategies, as well as operating margin variations between general merchandise and grocery retailers.

5. Financial Analysis

5.1 Profitability

Target's gross margin is forecasted to remain relatively stable at 27.9% throughout the forecasted period, in line with the past 3 years and consistently outperforming the peer average of 26.3%. This premium reflects the company's high share of discretionary and owned brands, as well as a growing loyalty program, which all contribute as high-margin ventures. However, unpredictable changes in tariffs and price wars with direct competitors could lead to margin compression in the future.

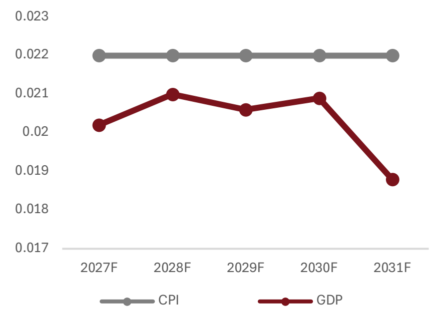
Figure 28: ROIC – WACC Spread



Source: Author Analysis

EBIT margins are expected to be around 5%, sitting just above the peer average of 4.6%. The ROIC is also expected to decline from 12.6% in 2026F to 11.1% in the terminal year; however, this remains above the 10% peer average and maintains a healthy spread over the WACC of 7.41%. If the “stores-as-hubs” strategy scales up, it could provide a significant operating margin boost, which will in turn also drive the ROIC value up. While the ROE is projected to trend downward to 19.3%, trailing the peer average of 24%, the sustained ROIC premium confirms the long-term sustainability of Target's invested capital.

Figure 29: CPI & GDP Projections

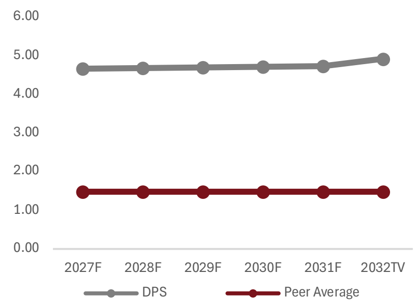


Source: Author Analysis, Congressional Budget Office & Statista

5.2 Liquidity

Target's liquidity position is expected to strengthen, with the current ratio forecasted to rise from 0.95 to 1.06 over the forecasted period, overtaking the 0.95 peer average. This is supported by a strong cash ratio, projected to reach 0.32 by 2031F, well above the 0.127 peer average. This healthy buffer ensures Target remains operationally resilient and capable of meeting short-term obligations, especially given the current volatile retail environment, preventing the company from needing short-term debt funding. Supply chain bottlenecks are an important factor to consider, given they could lead to large spikes in DIO, locking up cash in inventory and lowering the valuation in the near-term.

Figure 30: Dividends per share



Source: Author Analysis & Bloomberg

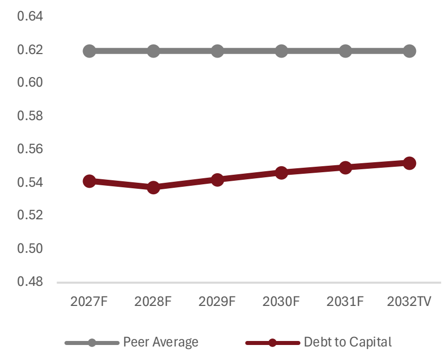
5.3 Efficiency

Efficiency remains an area where Target lags its peer group. The inventory turnover is stable at around 6.1x, well short of the 7.5x peer average. This gap is largely attributed to Target's category mix, where a high share of discretionary goods naturally contributes to slower merchandise movement. Furthermore, asset turnover is expected to decline from 1.74 to 1.61. This is driven by Target's aggressive capex deployment, notably the planned $5 billion in 2027. Because store remodels and “stores-as-hubs” investments require immediate cash outflows, related revenues will only be noticeable gradually over a multi-year horizon, creating short-term pressure before recovering into the terminal period.

5.4 Leverage

Target maintains a conservative leverage profile relative to its peers; the debt-to-equity ratio is expected to remain stable at 1.2x, significantly lower than the peer average of 1.9x, driven by the constant debt-to-assets assumption. While the net debt-to-EBITDA ratio is expected to rise from 1.9x to 2.3x over the forecasted period, it remains well below the peer average of 2.7x. This increase in debt directly connects to the increase in capex being used to fund store expansion and remodelling, as well as funding its share repurchase program.

Figure 31: Debt to Capital



Source: Author Analysis & Bloomberg

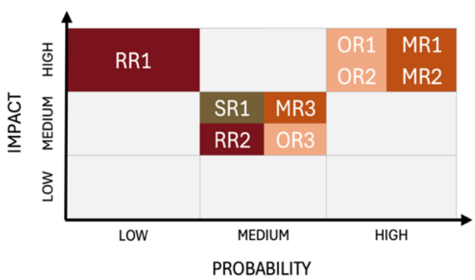
Whilst higher leverage brings about higher financial risk, the interest coverage ratio remains safe and is expected to decline and settle at 9.6x by the terminal year. This figure is superior to the peer average of 9.3x, indicating low solvency risk, proving Target can safely use leverage to boost its ROE, and protects its “dividend king” status without risking a credit rating downgrade.

6. Investment Risks

6.1 Risk Matrix

The Buy recommendation issued is susceptible to a wide variety of potential risks, which for the purpose of this analysis will be divided into the following categories: Market, Operational, Regulatory, Governance, Social. While the company demonstrates strong operational resilience, short-term macroeconomic and supply chain friction remains, with the 14% annualized upside potential justifying the Buy recommendation under a medium-low risk profile. The operational resilience could be significantly impacted by competitive and macroeconomic factors, with inventory and supply chain management also presenting major risks.

Figure 32: Risk Matrix



Source: Author Analysis

6.1.1 Market Risk

Spending and Inflation – MR1 | Discretionary spending is a significant factor impacting Target's performance. A variety of macroeconomic factors could harm spending capabilities, such as inflation, savings, and economic slowdowns. This is particularly impactful on discretionary goods, which represent around half of Target's category mix, however, the essential component is relevant in those times, providing a more secure revenue stream. In order to mitigate these effects, having an upper hand on the competition through pricing flexibility is critical.

Competition – MR2 | Target faces high competition in the US retail market from firms such as Walmart, Costco, and Amazon, which brings a competition from an alternative frontier. Through owned brands, Target can manage to differentiate itself from the competition and have greater control over its margins and pricing. Amazon offers a strong competition towards Target's online component, which is responsible for around 20% of revenues, while Amazon is a leader in this industry, Target's efficiency and distribution network, with stores serving as hubs, is an area to improve and have an upper hand on competitors like Amazon.

Global – MR3 | Target supplies a large portion of goods from international distributors, particularly in Asia. This increases the relevance of risks such as foreign exchange and global supply chain risks, with current tariffs averaging 17% also posing a direct threat to COGS. Approaches to address these involve diversifying the supplier network and hedging the foreign exchange risks.

6.1.2 Operational Risks

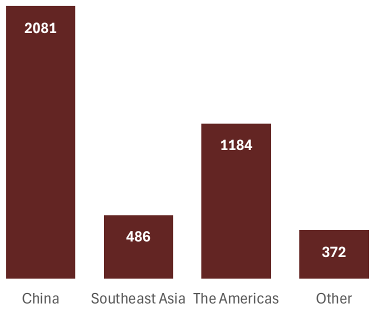
Supply Chain – OR1 | Target operates a diverse and complex international supply network, which takes advantage lowering supply costs, however also bringing up additional foreign and global risks, such as geopolitical conflicts leading to increased tariffs or unexpected foreign exchange impacts. While some of these issues aren't preventable, improving distribution centres, and increased sourcing alternatives may mitigate some impacts.

Inventory – OR2 | Inventory management and shrinkage is a critical risk for Target, forecasting isn't an exact science, and Target must put certain procedures in place using advanced analytics in order to prevent and control possible issues. This was a particularly prominent issue in 2022, where inventory shrinkage severely impacted Target's gross margin performance. Theft is another area where Target suffers, increased security and monitorization can be placed as a safeguard but issues remain.

Labour Complications – OR3 | Labour shortages or unionization of workers is an issue that can affect almost any company, driving up labour costs, disrupting operations and possibly creating an unfavourable environment between management and employees. Offering better employee benefits and competitive pay are proven mitigators, aside from this, flexible scheduling and paid leave are additional factors which should be considered.

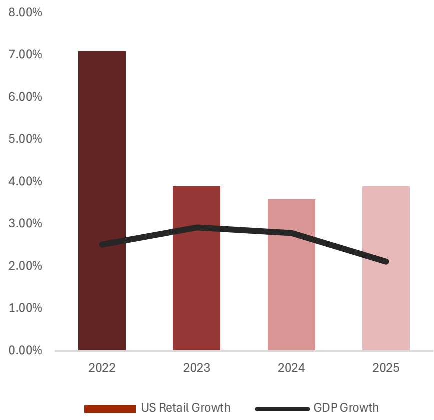
Geopolitical complications - OR4 | Target, although operating exclusively within the US market, has its financial performance remaining highly vulnerable to international political dynamics through its foreign sourcing. With around half of its merchandise coming from international vendors, conflicts, trade wars, and water channel closures pose a direct threat to the company's profitability. Regional instability along major shipping lanes can lead to immediate surges in freight costs and fuel costs. Given the high fixed-cost model Target operates, these sudden supply-side shocks can compress gross margins unless costs are passed on to consumers, something tough to do given the competitive pricing environment and value-seeking customer base.

Figure 33: Manufacturing Facilities



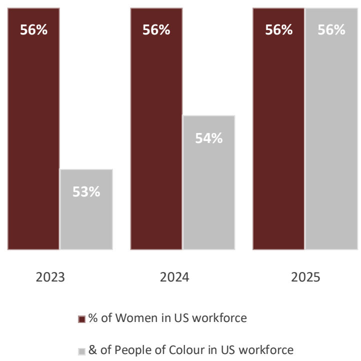
Source: Author Analysis and Company Data

Figure 34: US Retail Growth vs Inflation



Source: Author Analysis & Statista

Figure 35: Workforce Composition



Source: Author Analysis & Company Data

6.1.3 Regulatory Risks

Data Privacy – RR1 | Target stores vast amounts of employee information for many employees and customers, creating exposure to data breaches, as seen in 2013, where hackers obtained credit card information on 40 million customers, and personal information on 70 million. This event led to a lasting impact on customer trust and brand reputation while also costing Target millions in fines and settlements. This highlighted the need for stronger cyber security infrastructure, as well as a better response plan in the case of an additional breach.

ESG – RR2 | Increased environmental regulation is a current topic for any company to consider. While Target has above average ESG scores, compliance costs and additional regulations are not something the company is immune to.

6.1.4 Social Risks

DEI – SR1 | This is a relevant topic to consider, especially in the US where DEI is increasingly relevant. Target has a history of implementing DEI practices and pride initiatives, which have led to backlashes, however, the consequential removal of these programs has led to further long-lasting damage. This is a tough area where Target is committing to improve, as it has impacted revenues significantly in the past, although there still is room to improve.

6.2 Sensitivity Analysis

To evaluate the structural integrity of the perpetuity assumptions, a WACC vs. terminal growth rate (g) sensitivity matrix was constructed in Table A.41 to test the baseline price target of $133.52. The WACC and g were chosen as they serve as comprehensive financial aggregates for the whole business structure, with the WACC consolidating internal and systemic risks, such as interest rates, credit risk spreads and equity risk premiums, while g represents the long-term performance and sustainability of the business model. The matrix confirms the robustness of the Buy recommendation, with the price target creating a safety margin to the current $119.97 market price. Under severe monetary tightening, with the discount rate rising to 7.91% and the terminal growth falling to 2.93%, the implied price contracts to $103.4. On the other hand, optimization shifts compressing the WACC to 6.91%, combined with an accelerated terminal growth rate of 3.93%, unlock a valuation ceiling of $184.9. Ultimately, given that the intrinsic value clusters between the $110 and $150 figures, the stock remains slightly undervalued with a upside potential justifying a Buy recommendation.

6.3 Scenario Analysis

To evaluate the structural integrity and the sensitivity of the FCFF model, a multi scenario stress test was performed on Target's core valuation variables. Three distinct paths were modelled, a Base case ($133.52), a Bear case ($86.13), and a Bull Case ($180.09). This analysis provides a risk reward corridor, evaluating how variations in the gross profit margin, SG&A expenses, terminal growth rate, and WACC rate affect the company's intrinsic valuation, against the current $119.97 market price.

Base Scenario | Assumes a steady successful execution of Target's current capital turnaround, with gross margins stabilizing at 27.9%, and a 7.4% WACC.

Bear Scenario | Models a significant macroeconomic slowdown, where a squeeze on discretionary spending would drag gross margins down to 27.4%, and elevates risk, with investors requiring a higher 7.9% WACC.

Bull Scenario | Reflects an accelerated private label expansion, as well as a successful "stores as hubs" concept development with increased efficiency, driving gross margins to 28.4%, and lowering risk, represented by a 6.9% WACC.

Table 12: WACC Sensitivity

WACC	
7.91%	$115.41
7.41%	$133.52
6.91%	$156.86

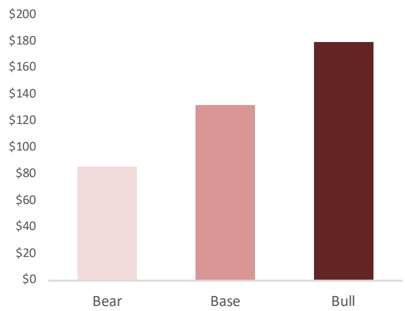
Source: Author Analysis

Table 13: Terminal Growth Sensitivity

Terminal Growth	
2.93%	$117.85
3.43%	$133.52
3.93%	$153.96

Source: Author Analysis

Figure 36: Scenario Analysis Price Targets



Source: Author Analysis

Table 14: Scenario Analysis Variables

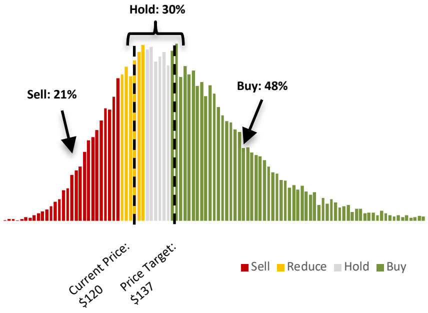
	Bear	Base	Bull
Gross Margin	27.4%	27.9%	28.4%
SG&A as % of Sales	20.9%	20.4%	19.9%
Terminal Growth	2.9%	3.4%	3.9%
WACC	7.9%	7.4%	6.9%
FCFF Price Target	$86.13	$133.52	$180.09
Upside/Downside	-28.2%	14%	50.1%

Source: Author Analysis

6.4 Monte Carlo Simulation

To complete the risk assessment, a Monte Carlo simulation with 10000 iterations was performed, with simultaneous changes in the following drivers being tested: Revenue growth, ERP, terminal growth rate, Unlevered beta, Risk free rate, COGS, and SG&A. The simulation results reached a mean price of $138.54 for the FCFF, and $114.76 for the FCFE, in line with the base price targets reached via the DCFs performed. The analysis while reaching a Buy recommendation, does have some variation in results with a 21% probability of a Sell recommendation, however a 48% of a Buy strongly supports a bullish outlook.

Figure 37: Monte Carlo Simulation



Source: Author Analysis

6.5 Risk Profile

Considering the qualitative exposures from the risk matrix as well as the quantitative findings from the Sensitivity, Scenario and Monte Carlo Analyses, a medium-low risk profile is assigned to the Target stock. Whilst retail general merchandise naturally carries macroeconomic spending exposure, a medium-low classification is justified by the following pillars:

Dividend king status | With 54 years of consistent annual dividend growth, Target demonstrates a strong long-term cash flow predictability and capital discipline, creating a resilient valuation floor for investors.

Conservative Leverage | Target maintains a Net Debt to EBITDA and Debt to Equity ratio below that of peers, combined with a strong investment grade credit rating, creating low default and solvency risk, even in periods of increased interest rates and capital expenditures. Further decreasing risk is Target's conservative cash buffer, helping the company absorb short term macro events, or inventory bottlenecks.

Essential mix and Private Label | Target's discretionary mix is anchored by their essential mix, which provides steady foot traffic and sales even during tough economic contractions. This is further backed by the private label portfolio, where vertical integration provides increased margin protection in the case of supply chain shocks.

Real Estate Ownership | Target has ownership of the vast majority of their physical stores, allowing the company to shield itself from lease inflation compared to peers.

ESG protection | Strong ESG scores particularly on the governance and Environmental pillars, provide Target with a strong insurance effect, creating some market protection given any future mishaps (Serafeim & Yoon, 2022).

Table 15: Recommendation system (Medium-Low Risk)

Investment Recommendation	Threshold
Buy	> 12.5%
Hold	>2.5% & <12.5%
Reduce	>-7.5% & <2.5%
Sell	<7.5%

7. ESG

7.1 Introduction

ESG is an increasingly important factor in the US retail industry, and for the whole economy in general. With this growing focus on ESG by stakeholders, investors also take into greater account companies´ ESG performance, looking at its sustainability, labor and customer relations, and ethical performance throughout the enterprise. Bloomberg data positions Target above peers in ESG ratings, almost at a perfect score, providing reduced operational risk and greater long-term preparation. ESG performance is core to Target's strategy, with the company placing great importance on its components, with social relations and reputation, as well as sustainability becoming an ever-greater consideration for the company. With this, initiatives such as the Target Forward sustainability strategy have been put in place in 2021, precisely to address these relevant topics, and ensure the company can sustain the growth long-term, whilst maintaining its ESG performance. These initiatives are reflected on its ESG performance, where when compared with peers, Target outperforms the median, still however falling behind Kroger which excels in ESG performance. The S&P ESG global rank complements this conclusion, showing Target above the peer average, however still lagging Kroger. The company demonstrates further importance on ESG via its

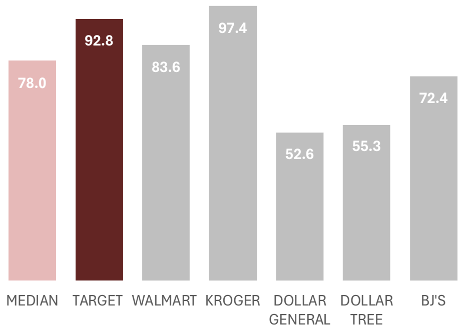
Figure 38: S&P Global Score

Source: Author Analysis & Bloomberg

reporting, presenting reports annually reporting in depth objectives, and data demonstrating how the company is currently performing and has evolved in the past in a variety of relevant metrics.

To evaluate the financial relevance of ESG to the company, the report incorporates insights provided by Serafeim and Yoon (2022). Its research demonstrates how investors can react aggressively to negative ESG news, particularly when it has financial materiality. On the other hand, firms with ESG performance above average benefit from an "insurance effect" helping dampen impacts on equity during operational shocks. This framework explains Target's valuation resilience, whilst the company boasts a superior ESG profile, its highly concentrated operations leave it sensitive to material social shocks, evidenced by the market corrections following the company's brand identity backlashes as discussed below.

Figure 39: ESG Score

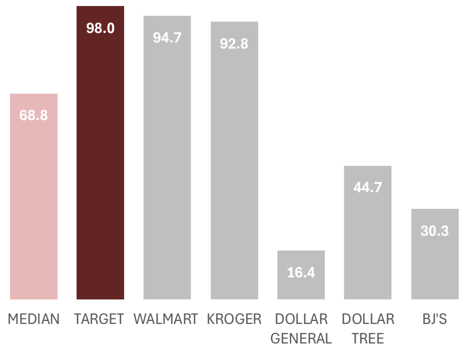


Source: Author Analysis & Bloomberg

7.2 Environmental

Looking at the peers, Target excels in the environmental score, surpassing the median and all the peers selected, with a strong score of 98, clearly presenting itself as the strongest ESG component for Target. In order to achieve such a high score, Target has put in a substantial amount of effort and investment, looking at the long-term future of the company. Over 75% of operations are powered by renewable energy, surpassing the 2025 target of 60%, this progress aims to help reach the 2030 aim of 100% renewable energy. In addition to these positive achievements, long term aims to reach net zero greenhouse emission from scope 1 to 3, are in place to be achieved by the year 2040. To achieve this long-term goal, intermediate targets are in place, such as a 55% reduction in scope 1 and 2 emission, and a 32,5% reduction in scope 3 emissions by 2030, relative to 2017. Aside from these previously mentioned 2030 goals, the company intends to make raw materials for its owned brand products to be 100% recycled, regenerative or sustainably sourced. Waste is another area Target is focusing on with a variety of objectives being put in place. The company aims for a 100% use of recycled plastic for packaging of its owned brands, as well as a 20 % decrease in virgin plastic use in its owned brand plastics, relative to 2030. By the end of the decade, Target also aims for a zero waste to landfill goal, with an 87% figure being reached in 2024.

Figure 40: Environmental Score



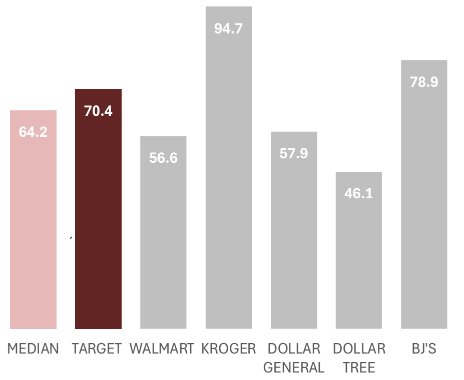
Source: Author Analysis & Bloomberg

7.3 Social

The social component is one where the company continues to do well, performing slightly above the average, although, falling far behind Kroger and slightly lagging BJ's. While Target has performed well in the social component, some recent issues have prevented Target, from closing the gap. Target offers a comprehensive variety of benefits to its employees in addition to its base wages such as tuition-free education programs, and free mental and physical health programs. Target has several DEI programs in place, such as gender equity programs with 60% of the supply chain workforce being composed of women. Target also aims to have 100% of owned brand suppliers to have gender equity programs in place by 2025. Target also works towards inclusion in its shops by focusing on bringing brands that are black, Latino, veteran, and women owned. This is an area however, that has put Target under the spotlight in recent times. At the start of 2025, Target scaled back on its DEI programs, following backlash from a notable part of the population, opposed to the DEI and pride month initiatives. As a result, however, another part of the population opposed this decision, leading to large boycotts, and a significant drop in sales and share price. The company has since released communications, with the aim of balancing brand identity and stakeholder expectations. This disruption is an example of the asymmetric market reactions identified by Serafeim and Yoon (2022). Years of positive social initiatives yielded minimal valuation gains, whilst a single isolated material event led to an aggressive equity contraction.

Aside from these Target also engages significantly with communities, with over 1 million hours in volunteer work, and over $400 million being donated through Target and the Target Foundation.

Figure 41: Social Score

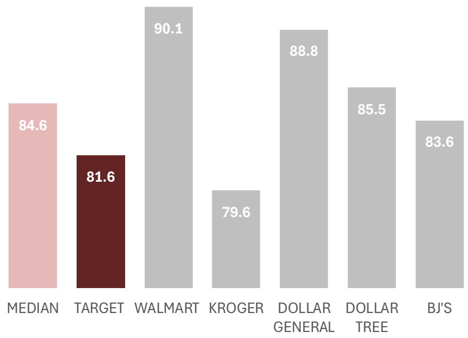


Source: Author Analysis & Bloomberg

7.4 Governance

Governance is an area where Target clearly excels, performing at a level far above that of peers. This robust oversight structure mitigates downside systemic risk, supporting the stability underpinning the Buy recommendation and medium-low risk profile assigned. Target's board is composed of 12 members, with 11 of those being of independent nature. Of these 12 members, 33% are women, and 33% people of colour, reflecting intention to create an inclusive representation, especially when compared to other major companies. Given the single class of common stock, all shareholders are given the same voting rights, corresponding to the individual number of shares held.

Figure 42: Governance Score



Source: Author Analysis & Bloomberg

The Corporate Governance and Sustainability Committee has also been implemented in order to monitor aspects such as ESG, risk management, as well as the long-term strategy. The Audit and Risk Committee oversee aspects such as cybersecurity and data protection. Then the Human capital and Compensation Committee monitors pay practices, diversity, etc.

Ethical procedures are taken seriously by the company, having a code of ethics in place as well as a supplier code of conduct. These aim to tackle corruption and ensure ethical labour and environmental conditions and practices. Aside from this oversight, employees are also required to partake in annual ethical and compliance training, ensuring the whole workforce is aware of the expected standards. Anonymous channels are also available, reducing the number of unreported issues that come up.

Executive pay is mainly composed of a fixed salary, combined with performance-based bonuses, which can include cash bonuses or equity awards. Performance based incentives ensure accountability, and that executive actions align with broad company objectives. Executive remuneration is directly tied to ESG factors, with aspects such as DEI, inclusion, and sustainability all being considered. This incentivizes executives to not only look at maximising profits but also ensuring ESG isn't forgotten, ensuring a long-term sustainable growth. The Human Capital and Compensation Committee mentioned above, also monitors executive pay, ensuring procedures align with shareholder interests.

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Appendices

Appendix 1: Financial Statements

Table A. 16 – Statement of Financial Position: historical and forecast

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Cash and Equivalents	5,911	2,229	3,805	4,762	5,488	5,811	6,450	6,568	6,574	6,673	6,824
Inventories	13,902	13,499	11,886	12,740	12,304	12,474	12,613	12,856	13,130	13,338	13,870
Other Current Assets	1,760	2,118	1,807	1,952	2,213	1,946	1,967	2,005	2,048	2,080	2,163
Total Current Assets	21,573	17,846	17,498	19,454	20,005	20,231	21,031	21,430	21,752	22,092	22,857
Accumulated Depreciation	21,137	22,631	24,413	26,277	28,390	31,007	33,742	36,585	39,532	42,581	45,729
Property Plant & Equipment - Net	28,181	31,512	33,096	33,022	33,749	36,132	37,552	38,933	40,283	41,596	42,919
Operating Lease Assets	2,556	2,657	3,362	3,763	3,703	4,107	4,525	4,986	5,494	6,052	6,667
Other Noncurrent Assets	1,501	1,320	1,400	1,530	2,033	1,540	1,558	1,588	1,621	1,647	1,713
Total Non-Current Assets	32,238	35,489	37,858	38,315	39,485	41,779	43,635	45,506	47,397	49,295	51,299
Total Assets	53,811	53,335	55,356	57,769	59,490	62,010	64,665	66,936	69,150	71,387	74,156
Accounts Payable - Trade	15,478	13,487	12,098	13,053	12,622	13,129	13,275	13,531	13,819	14,037	14,597
Accrued Expenses and Other	6,098	5,883	6,090	6,110	6,478	6,132	6,132	6,132	6,132	6,132	6,132
ST Borrowings and Current Portion of LT Debt	171	130	1,116	1,636	2,130	2,000	97	81	1,000	1,230	882
Total Current Liabilities	21,747	19,500	19,304	20,799	21,230	21,261	19,503	19,744	20,950	21,399	21,611
Long Term Debt	13,549	16,009	14,922	14,304	14,326	14,946	17,567	18,339	18,067	18,468	19,454
Deferred Income Taxes (Liabilities)	1,566	2,196	2,480	2,303	2,265	2,436	2,531	2,624	2,715	2,804	2,893
Other Noncurrent Liabilities	1,629	1,760	1,939	2,115	2,042	1,874	1,895	1,932	1,973	2,004	2,084
Long Term Operating Lease Liabilities	2,493	2,638	3,279	3,582	3,462	3,866	4,284	4,745	5,253	5,811	6,426
Total Noncurrent Liabilities	19,237	22,603	22,620	22,304	22,095	23,122	26,278	27,641	28,008	29,087	30,857
Total Liabilities	40,984	42,103	41,924	43,103	43,325	44,382	45,781	47,384	48,958	50,486	52,467
Common Stock	39	38	38	38	38	38	38	38	38	38	38
Additional Paid In Capital	6,421	6,608	6,761	6,996	7,247	7,509	7,773	8,042	8,317	8,597	8,887
Accumulated Other Comprehensive Income	(553)	(419)	(460)	(458)	(417)	(417)	(417)	(417)	(417)	(417)	(417)
Treasury Stock	0	0	0	0	0	(535)	(1,247)	(2,565)	(3,947)	(5,264)	(6,598)
Retained Earnings (Accumulated Deficit)	6,920	5,005	7,093	8,090	9,297	11,033	12,737	14,454	16,200	17,947	19,778
Total Shareholder Investment	12,827	11,232	13,432	14,666	16,165	17,627	18,884	19,552	20,191	20,901	21,689
Total Liabilities and Shareholders' Equity	53,811	53,335	55,356	57,769	59,490	62,010	64,665	66,936	69,150	71,387	74,156

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Table A. 17 – Income Statement: historical and forecast

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Total Revenue	106,005	109,120	107,412	106,566	104,780	105,438	106,609	108,667	110,978	112,735	117,231
Cost of Goods Sold	74,963	82,229	77,736	76,502	75,511	75,985	76,829	78,312	79,978	81,244	84,484
Selling General and Administrative Expenses	19,752	20,658	21,554	21,969	21,535	21,535	21,761	22,181	22,652	23,011	23,929
Depreciation and Amortization	2,344	2,385	2,415	2,529	2,617	2,617	2,735	2,843	2,947	3,049	3,149
Gross Profit	31,042	26,891	29,676	29,269	29,269	29,453	29,780	30,355	31,000	31,491	32,747
Operating Income	8,946	3,848	5,707	5,566	5,117	5,301	5,284	5,332	5,401	5,431	5,670
Interest Expense - Net	421	478	502	411	445	492	506	528	550	570	588
Other Non-Operating (Income)/Expense - Net	(382)	(48)	(92)	(106)	(95)	(145)	(145)	(145)	(145)	(145)	(145)
Income Before Income Taxes	8,907	3,418	5,297	5,261	4,767	4,954	4,923	4,949	4,995	5,006	5,226
Income Tax Expense (Benefit)	1,961	638	1,159	1,170	1,062	1,061	1,054	1,060	1,070	1,072	1,119
Net Income	6,946	2,780	4,138	4,091	3,705	3,893	3,868	3,889	3,926	3,934	4,107

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Table A.18 – Cash Flow Statement: historical and forecast

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Net Income - CF	6,946	2,780	4,138	4,091	3,705	3,893	3,868	3,889	3,926	3,934	4,107
Depreciation And Amortization - CF	2,642	2,700	2,801	2,981	3,134	2,617	2,735	2,843	2,947	3,049	3,149
Deferred Income Taxes - CF	522	582	298	(180)	(55)	171	96	93	91	89	89
Stock Based Compensation	228	220	251	304	281	262	264	269	275	279	291
Change in Inventories	(3,249)	403	1,613	(854)	436	(170)	(139)	(244)	(273)	(208)	(532)
Change in Accounts Payable	2,628	(2,237)	(1,216)	1,008	(501)	507	146	256	288	219	560
Change in Accrued Expenses	(746)	(624)	727	299	156	(346)	0	0	0	0	0
Change in Other Assets	(78)	22	(85)	(308)	(494)	760	(39)	(68)	(76)	(58)	(149)
Total Cash Flows from Operations	8,625	4,018	8,621	7,367	6,562	7,692	6,932	7,039	7,177	7,304	7,514
Disposal of Fixed Assets	27	8	24	3	—	0	0	0	0	0	0
Capital Expenditures	(3,544)	(5,528)	(4,806)	(2,891)	(3,727)	(5,000)	(4,155)	(4,223)	(4,297)	(4,363)	(4,472)
Other Investing Activities	363	16	22	28	78	(404)	(419)	(461)	(507)	(559)	(615)
Total Cash Flows from Investing	(3,154)	(5,504)	(4,760)	(2,860)	(3,649)	(5,404)	(4,573)	(4,684)	(4,804)	(4,921)	(5,087)
Dividends Paid	(1,548)	(1,836)	(2,011)	(2,046)	(2,053)	(2,157)	(2,165)	(2,172)	(2,179)	(2,187)	(2,276)
Increase In Long-Term Borrowings	1,972	2,625	0	741	1,984	1,990	2,718	853	728	1,631	637
Decrease In Long-Term Borrowings	(1,147)	(163)	(147)	(1,139)	(1,643)	(1,500)	(2,000)	(97)	(81)	(1,000)	0
Repurchase of Common Stock	(7,356)	(2,826)	0	(1,007)	(408)	(535)	(712)	(1,318)	(1,382)	(1,317)	(1,333)
Other Financing Activities	—	—	(127)	(99)	(67)	236	439	497	548	590	695
Exercise of Stock Options	8	4	0	0	—	0	0	0	0	0	0
Total Cash Flows from Financing	(8,071)	(2,196)	(2,285)	(3,550)	(2,187)	(1,966)	(1,719)	(2,237)	(2,366)	(2,284)	(2,277)
Net Change In Cash	(2,600)	(3,682)	1,576	957	726	323	640	118	7	99	150
Cash and Cash Equivalents (Beg of Period)	8,511	5,911	2,229	3,805	4,762	5,488	5,811	6,450	6,568	6,574	6,673
Cash and Cash Equivalents (End of Period)	5,911	2,229	3,805	4,762	5,488	5,811	6,450	6,568	6,574	6,673	6,824

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Table A. 19 – Statement of Financial Position: historical and forecast (common-size)

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Cash and Equivalents	11%	4%	7%	8%	9%	9%	10%	10%	10%	9%	9%
Inventories	26%	25%	21%	22%	21%	20%	20%	19%	19%	19%	19%
Other Current Assets	3%	4%	3%	3%	4%	3%	3%	3%	3%	3%	3%
Total Current Assets	40%	33%	32%	34%	34%	33%	33%	32%	31%	31%	31%
Accumulated Depreciation	39%	42%	44%	45%	48%	50%	52%	55%	57%	60%	62%
Property Plant & Equipment - Net	52%	59%	60%	57%	57%	58%	58%	58%	58%	58%	58%
Operating Lease Assets	5%	5%	6%	7%	6%	7%	7%	7%	8%	8%	9%
Other Noncurrent Assets	3%	2%	3%	3%	3%	2%	2%	2%	2%	2%	2%
Total Non-Current Assets	60%	67%	68%	66%	66%	67%	67%	68%	69%	69%	69%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Accounts Payable - Trade	29%	25%	22%	23%	21%	21%	21%	20%	20%	20%	20%
Accrued Expenses and Other	11%	11%	11%	11%	11%	10%	9%	9%	9%	9%	8%
ST Borrowings and Current Portion of LT Debt	0%	0%	2%	3%	4%	3%	0%	0%	1%	2%	1%
Total Current Liabilities	40%	37%	35%	36%	36%	34%	30%	29%	30%	30%	29%
Long Term Debt	25%	30%	27%	25%	24%	24%	27%	27%	26%	26%	26%
Deferred Income Taxes (Liabilities)	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Other Noncurrent Liabilities	3%	3%	4%	4%	3%	3%	3%	3%	3%	3%	3%
Long Term Operating Lease Liabilities	5%	5%	6%	6%	6%	6%	7%	7%	8%	8%	9%
Total Noncurrent Liabilities	36%	42%	41%	39%	37%	37%	41%	41%	41%	41%	42%
Total Liabilities	76%	79%	76%	75%	73%	72%	71%	71%	71%	71%	71%
Common Stock	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Additional Paid In Capital	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Accumulated Other Comprehensive Income	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Treasury Stock	0%	0%	0%	0%	0%	-1%	-2%	-4%	-6%	-7%	-9%
Retained Earnings (Accumulated Deficit)	13%	9%	13%	14%	16%	18%	20%	22%	23%	25%	27%
Total Shareholder Investment	24%	21%	24%	25%	27%	28%	29%	29%	29%	29%	29%
Total Liabilities and Shareholders' Equity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Table A. 20 – Income Statement: historical and forecast (common-size)

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Goods Sold	71%	75%	72%	72%	72%	72%	72%	72%	72%	72%	72%
Selling General and Administrative Expenses	19%	19%	20%	21%	21%	20%	20%	20%	20%	20%	20%
Depreciation and Amortization	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%
Gross Profit	29%	25%	28%	27%	28%	28%	28%	28%	28%	28%	28%
Operating Income	8%	4%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Interest Expense - Net	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%
Other Non-Operating (Income)/Expense - Net	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Income Before Income Taxes	8%	3%	5%	5%	5%	5%	5%	5%	5%	4%	4%
Income Tax Expense (Benefit)	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Net Income	7%	3%	4%	4%	4%	4%	4%	4%	4%	3%	4%

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Table A. 21 – Cash Flow Statement: historical and forecast (common-size)

($ millions)	2022	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Net Income - CF	81%	69%	48%	56%	56%	51%	56%	55%	55%	54%	55%
Depreciation And Amortization - CF	31%	67%	32%	40%	48%	34%	39%	40%	41%	42%	42%
Deferred Income Taxes - CF	6%	14%	3%	-2%	-1%	2%	1%	1%	1%	1%	1%
Stock Based Compensation	3%	5%	3%	4%	4%	3%	4%	4%	4%	4%	4%
Change in Inventories	-38%	10%	19%	-12%	7%	-2%	-2%	-3%	-4%	-3%	-7%
Change in Accounts Payable	30%	-56%	-14%	14%	-8%	7%	2%	4%	4%	3%	7%
Change in Accrued Expenses	-9%	-16%	8%	4%	2%	-5%	0%	0%	0%	0%	0%
Change in Other Assets	-1%	1%	-1%	-4%	-8%	10%	-1%	-1%	-1%	-1%	-2%
Total Cash Flows from Operations	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Disposal of Fixed Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Capital Expenditures	-41%	-138%	-56%	-39%	-57%	-65%	-60%	-60%	-60%	-60%	-60%
Other Investing Activities	4%	0%	0%	0%	1%	-5%	-6%	-7%	-7%	-8%	-8%
Total Cash Flows from Investing	-37%	-137%	-55%	-39%	-56%	-70%	-66%	-67%	-67%	-67%	-68%
Dividends Paid	-18%	-46%	-23%	-28%	-31%	-28%	-31%	-31%	-30%	-30%	-30%
Increase In Long-Term Borrowings	23%	65%	0%	10%	30%	26%	39%	12%	10%	22%	8%
Decrease In Long-Term Borrowings	-13%	-4%	-2%	-15%	-25%	-20%	-29%	-1%	-1%	-14%	0%
Repurchase of Common Stock	-85%	-70%	0%	-14%	-6%	-7%	-10%	-19%	-19%	-18%	-18%
Other Financing Activities	0%	0%	-1%	-1%	-1%	3%	6%	7%	8%	8%	9%
Exercise of Stock Options	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Cash Flows from Financing	-94%	-55%	-27%	-48%	-33%	-26%	-25%	-32%	-33%	-31%	-30%
Net Change In Cash	-30%	-92%	18%	13%	11%	4%	9%	2%	0%	1%	2%
Cash and Cash Equivalents (Beg of Period)	99%	147%	26%	52%	73%	71%	84%	92%	92%	90%	89%
Cash and Cash Equivalents (End of Period)	69%	55%	44%	65%	84%	76%	93%	93%	92%	91%	91%

Source: *Company's Annual Report 2025 (historical), Author estimates (forecasts)*

Appendix 2: Financial Analysis

Table A. 22 – Key Financial Ratios

	2023	2024	2025	2026	2027F	2028F	2029F	2030F	2031F	2032TV	Peer Average
Profitability Ratios											
Gross Margin	0.246	0.276	0.275	0.279	0.279	0.279	0.279	0.279	0.279	0.279	0.263
EBITDA Margin	0.057	0.076	0.076	0.074	0.075	0.075	0.075	0.075	0.075	0.075	0.095
EBIT Margin	0.035	0.053	0.052	0.049	0.050	0.050	0.049	0.049	0.048	0.048	0.046
Profit Margin	0.025	0.039	0.038	0.035	0.037	0.036	0.036	0.035	0.035	0.035	0.025
ROA	0.052	0.076	0.072	0.063	0.064	0.061	0.059	0.058	0.056	0.056	0.063
ROIC	0.094	0.132	0.122	0.105	0.126	0.120	0.117	0.114	0.110	0.111	0.100
ROE	0.231	0.336	0.291	0.240	0.230	0.212	0.202	0.198	0.191	0.193	0.240
Retention Rate	0.340	0.514	0.500	0.446	0.446	0.440	0.441	0.445	0.444	0.446	0.773
FCF Margin	-0.014	0.036	0.042	0.027	0.026	0.026	0.026	0.026	0.026	0.026	0.035
Liquidity Ratios											
Current Ratio	0.915	0.906	0.935	0.942	0.952	1.078	1.085	1.038	1.032	1.058	0.954
Quick Ratio	0.223	0.291	0.323	0.363	0.365	0.432	0.434	0.412	0.409	0.416	0.197
Cash Ratio	0.114	0.197	0.229	0.259	0.273	0.331	0.333	0.314	0.312	0.316	0.127
WC / Sales	-0.015	-0.017	-0.013	-0.012	-0.010	0.014	0.016	0.007	0.006	0.011	-0.004
Efficiency Ratios											
Asset Turnover	2.037	1.976	1.884	1.787	1.736	1.683	1.651	1.631	1.604	1.611	2.183
WC / Sales	-0.015	-0.017	-0.013	-0.012	-0.010	0.014	0.016	0.007	0.006	0.011	-0.004
CAPEX / Sales	0.051	0.045	0.027	0.036	0.047	0.039	0.039	0.039	0.039	0.038	0.039
Inventory Turnover	6.002	6.125	6.213	6.030	6.133	6.125	6.150	6.155	6.139	6.210	7.502
Leverage											
Debt / Equity	1.672	1.438	1.331	1.232	1.181	1.162	1.185	1.204	1.220	1.234	1.895
Debt / Capital	0.626	0.590	0.571	0.552	0.541	0.538	0.542	0.546	0.550	0.552	0.620
Debt / Assets	0.352	0.349	0.338	0.335	0.336	0.339	0.346	0.352	0.357	0.361	0.416
Net Debt / EBITDA	2.655	1.910	1.823	1.866	1.895	1.933	2.030	2.126	2.221	2.261	2.680
Interest Coverage Ratio	8.050	11.369	13.543	11.499	10.783	10.439	10.104	9.815	9.535	9.636	9.284

Source: *Author Estimates & Bloomberg*

Appendix 3: Forecasting Assumptions

Table A. 23– Forecasting Assumptions: Income Statement

Income Statement	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
Total Revenue	$M	105,438	106,609	108,667	110,978	112,735	117,231	See Table A.2
Cost of Goods Sold	% of Revenue	72%	72%	72%	72%	72%	72%	Growth as historical % of revenues from 2020 to 2024, excluding 2022, due to the spike caused by inventory shrinkage.
Selling General and Administrative Expenses	% of Revenue	20%	20%	20%	20%	20%	20%	Growth as historical % of Revenues from 2020 to 2024
Depreciation and Amortization	% of PPE (excl.Land)	8%	8%	8%	8%	8%	8%	Growth as historical % of beginning PPE (excluding land) from 2020 to 2024
Interest Expense - Net	% of Debt	3%	3%	3%	3%	3%	3%	Growth as historical % of beginning Debt from 2020 to 2024
Other Non-Operating (Income)/Expense - Net	$M	(145)	(145)	(145)	(145)	(145)	(145)	Held constant using the historical average from 2020 to 2024
Income Tax Expense (Benefit)	% of EBT	21%	21%	21%	21%	21%	21%	Growth as historical % of EBT from 2020 to 2024

Source: Author Estimates

Income statement projections are driven by historical margins and cost ratios from the 2020 to 2024 operational baseline. The year 2022 is intentionally excluded from the cost of goods sold historical average to prevent the massive pandemic-era inventory shrinkage spike from distorting the normalized, long-term profit margins of the business.

Table A. 24 – Forecasting Assumptions: Revenues

	Revenues	% growth	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
	Revenue		105,438	106,609	108,667	110,978	112,735	117,231	Sum of store sales, digital sales and other
	Store Sales		80,963	80,440	80,736	81,211	81,056	83,559	Market share * market size
	Digital Sales		22,273	23,512	24,819	26,199	27,655	29,193	Market share * market size
	Other		2,202	2,657	3,113	3,568	4,024	4,479	Ad revenue + credit card profit sharing + other
	Number of Stores		2,025	2,042	2,060	2,077	2,094	2,111	Grow at an average of 17 store per year, in line with the average of the past 4 years. With the first forecasted year having a growth of 30 stores, in line with the annual report.
Revenue by Segment	Apparel & Accessories	2.9%	16,461	16,417	16,374	16,330	16,287	16,244	Market share * market size
	Beauty	9.0%	14,184	15,273	16,445	17,707	19,067	20,530	
	Food & Beverage	7.1%	25,235	26,729	28,314	29,998	31,784	33,681	
	Hardlines	-1.3%	15,504	15,222	14,947	14,678	14,415	14,157	
	Home Furnishings & Decor	-2.2%	15,895	15,794	15,693	15,593	15,494	15,395	
	Household Essentials	0.4%	17,548	17,612	17,675	17,739	17,803	17,867	
Market share	Apparel & Accessories	-2.1%	5%	4%	4%	4%	4%	4%	Forecasted to continue to grow or decline at rate corresponding to average growth of the past 5 years, linearly shifting towards a stable market share in the final year. Due to the growing ecommerce market over the past 5 years, the market share change is predicted to stabilize for Target, therefore a stable and constant market share was assumed for the forecasted years.
	Beauty	4.6%	14%	14%	15%	16%	16%	17%	
	Food & Beverage	1.7%	2%	2%	2%	2%	2%	2%	
	Hardlines	-3.8%	7%	7%	6%	6%	6%	6%	
	Home Furnishings & Decor	-4.8%	7%	6%	6%	6%	6%	5%	
	Household Essentials	-4.1%	8%	8%	8%	8%	8%	7%	
	E-commerce	-8.0%	2%	2%	2%	1%	1%	1%	
Market size	Apparel Market	4.2%	358,700	365,300	372,022	378,867	385,838	392,937	Market forecasted to grow according to industry forecasts provided on the Statista website, which look at the next 5 years, and were made analysing solely the US market.
	Food & Beverage	21.0%	1,083,010	1,128,185	1,175,388	1,224,714	1,276,260	1,330,129	
	Food		864,620	905,689	948,710	993,773	1,040,978	1,090,424	
	Drinks		218,390	222,496	226,679	230,940	235,282	239,705	
	Beauty Market	5.4%	101,280	104,217	107,239	110,349	113,549	116,842	
	Hardlines	2.6%	221,100	225,666	230,343	235,135	240,045	245,077	
	Consumer electronics		155,570	157,888	160,241	162,628	165,051	167,511	
	Toys and Hobby		65,530	67,778	70,102	72,507	74,994	77,566	
	Home Furnishings & Decor	2.8%	236,771	247,165	258,016	269,343	281,167	293,510	
	Household Essentials	5.4%	211,078	216,313	221,677	227,175	232,809	238,583	
	Home & Laundry Care		32,968	33,785	34,623	35,482	36,362	37,264	
	Tissue & Hygiene Paper		43,738	44,823	45,935	47,074	48,241	49,438	
	Pet & Animal Supplies		90,961	93,217	95,529	97,898	100,326	102,814	
	OTC Pharmaceuticals		43,411	44,487	45,590	46,721	47,880	49,067	
	E-commerce US	14.6%	1,036,890	1,036,890	1,036,890	1,036,890	1,036,890	1,036,890	
Other	Advertising revenue		757	865	974	1,082	1,190	1,298	Advertising revenue is forecasted to double in size according to Target, so a linear growth was forecasted.
	Credit card profit sharing		576	576	576	576	576	576	Due to lack of information the assumption will be a constant value equal to that of 2024
	Other		868	1,216	1,563	1,910	2,258	2,605	Other revenues are expected to increase 5-fold according to Target, so a linear growth to achieve that value was forecasted.

Source: Author Estimates & Statista

Terminal growth rates are fundamentally derived from steady-state reinvestment dynamics rather than historical macro proxies. The terminal firm growth rate of 3.43% is calculated as the steady-state Reinvestment Rate of 31% multiplied by the Return on Invested Capital of 11%. The terminal equity growth rate of 3.08% isolates long-term equity capital accumulation, calculated as the equity reinvestment rate of 16% multiplied by the steady-state Return on Equity of 19%.

Table A. 25 – Forecasting Assumptions: Balance Sheet

Balance Sheet	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
Cash and Equivalents	$M	5811	6450	6568	6574	6673	6824	From 2019 to 2025, the company's cash level has never fallen below 2% of revenues, therefore, a minimum cash floor will be set at 2% of revenues, with maximum cash ceiling being set at 5,42% the highest over the past 4 years.
Inventories	DIO	60	60	60	60	60	60	Growth as historical average of DIO from 2020 to 2024, divided by 365 and multiplied by COGS
Other Current Assets	% of Revenue	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	Growth as historical % of Revenues from 2020 to 2024
Accumulated Depreciation	$M	31007	33742	36585	39532	42581	45729	Acc. Dep (t-1) + D&A (t)
Property Plant & Equipment - Net	$M	59882	63796	67770	71809	75905	80102	See Table A.4
Operating Lease Assets	$M	4107	4525	4986	5494	6052	6667	See Table A.5
Other Noncurrent Assets	% of Revenue	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	Growth as historical % of Revenues from 2020 to 2024
Accounts Payable - Trade	DPO	63	63	63	63	63	63	Growth as historical average of DPO from 2020 to 2024, divided by 365 and multiplied by COGS
Accrued Expenses and Other	$M	6132	6132	6132	6132	6132	6132	Held constant as historical average from 2020 to 2024
ST Borrowings and Current Portion of LT Debt	$M	2000	97	81	1000	1230	882	Hard coded directly form the annual report, with the terminal year value being an average of the forecasted period.
Long Term Debt	$M	14946	17567	18339	18067	18468	19454	Total debt - ST borrowings and Current portion of LT Debt
Total Debt	% of Assets	28%	28%	28%	28%	28%	27%	Debt to equity assumed to remain at relatively constant ratio relative to asset base in the last historical year.
Deferred Income Taxes (Liabilities)	% of PPE	7%	7%	7%	7%	7%	7%	Growth as historical % of PPE from 2020 to 2024
Other Noncurrent Liabilities	% of Revenue	2%	2%	2%	2%	2%	2%	Growth as historical % of Revenues from 2020 to 2024
Long Term Operating Lease Liabilities	$M	3,866	4,284	4,745	5,253	5,811	6,426	Change equal to the asset side
Common Stock	$M	38	38	38	38	38	38	Held constant with the latest year
Additional Paid In Capital	$M	7,509	7,773	8,042	8,317	8,597	8,887	APIC (t-1) + Stock Based Compensation form CFS
Accumulated Other Comprehensive Income	$M	(417)	(417)	(417)	(417)	(417)	(417)	Held constant with the latest year
Treasury Stock	$M	(535)	(1,247)	(2,565)	(3,947)	(5,264)	(6,598)	New line created to account for accumulated Share Repurchases in the CFS
Retained Earnings (Accumulated Deficit)	$M	11,033	12,737	14,454	16,200	17,947	19,778	RE (t-1) + NI (t) - Dividends (t)

Source: Author Estimates

Table A. 26 – Forecasting Assumptions: Property Plant & Equipment

PPE	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
PPE (excl.Land)	$M	59,882	63,796	67,770	71,809	75,905	80,102	PPE (excl. Land)(t-1) - Land(t) + Capex (excl. Land)
Land	$M	7,257	7,498	7,747	8,005	8,271	8,547	Land = Land (t-1) *(1+ average growth rate last 5 years)
Capex (excl. Land)	$M	4,766	3,913	3,974	4,039	4,096	4,197	Capex - Capex Land
Capex Land	$M	234	241	249	258	266	275	Land(t) - Land (t-1)
Net PPE	$M	36,132	37,552	38,933	40,283	41,596	42,919	PPE (excl. Land) - Acc. Depreciation + Land

***Source:** Author Estimates*

Property plant and equipment projections separate land from depreciable assets. Land scales annually based on its five-year historical growth rate. Capital expenditures are divided into existing store investments, new store investments, supply chain automation, and information technology. Net property plant and equipment balances are calculated by adding new capital expenditures and subtracting annual depreciation from the asset baseline.

Table A. 27– Forecasting Assumptions: Operating Lease Assets

Operating Lease Assets	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
Operating Lease Assets	$M	4,107	4,525	4,986	5,494	6,052	6,667	Lease Assets per store * Number of stores
Leased Assets Per Store		2.0	2.2	2.4	2.6	2.9	3.2	Number of lease assets per store to grow at average rate of the past 4 years.
% Growth in Leased Assets per Store	%	9%	9%	9%	9%	9%	9%	Average growth over the past 4 years

***Source:** Author Estimates*

Operating lease assets are projected based on store footprint expansion. The model estimates leased assets per store using the five-year historical average, which increases at a constant annual rate of 9% based on historical lease terms. Total operating lease assets move symmetrically with long term operating lease liabilities on the liabilities side of the balance sheet.

Table A. 28 – Forecasting Assumptions: Cash Flow Statement

Cash Flow Statement	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
Net Income - CF	$M	3,893	3,868	3,889	3,926	3,934	4,107	From IS
Depreciation And Amortization - CF	DIO	2,617	2,735	2,843	2,947	3,049	3,149	From IS
Deferred Income Taxes - CF	% of Revenue	171	96	93	91	89	89	Change in Deferred Income taxes in the BS
Stock Based Compensation	% of SGA	1%	1%	1%	1%	1%	1%	Growth as historical % of SGA from 2020 to 2024
Change in Inventories	$M	(170)	(139)	(244)	(273)	(208)	(532)	Change in Inventories in the BS
Change in Accounts Payable	$M	507	146	256	288	219	560	Change in Accounts Payable in the BS
Change in Accrued Expenses	$M	(346)	0	0	0	0	0	Change in Accrued Expenses in the BS
Change in Other Assets	$M	760	(39)	(68)	(76)	(58)	(149)	Change in Other Assets in the BS
Disposal of Fixed Assets	$M	0	0	0	0	0	0	Forecasted as 0
Capital Expenditures	$M	(5,000)	(4,155)	(4,223)	(4,297)	(4,363)	(4,472)	See Table A.6
Other Investing Activities	$M	(404)	(419)	(461)	(507)	(559)	(615)	Non-Cash increase in Operating Lease Assets
Dividends Paid	% growth	6%	6%	6%	6%	6%	6%	Forecasted to remain at the percentage of Net Income in 2026. due to Target's long standing dividend growth tradition, in the case of a decrease in NI, a floor growth of 0.38% is in place, corresponding to the lowest YoY growth in total dividends over the past 5 years.
Increase In Long-Term Borrowings	$M	1,990	2,718	853	728	1,631	637	Increase in borrowing to make sure debt maintains at target level. Debt t - Debt t-1 - Decrease in Long term borrowings, where Debt t is Assets t-1 multiplied by the 2026 debt to assets ratio. A maximum formula is used to ensure the increase is never negative, in case of any year where there may be a negative change in the asset base.
Decrease In Long-Term Borrowings	$M	(1,500)	(2,000)	(97)	(81)	(1,000)	0	Hard coded from the Annual report repayment schedule
Repurchase of Common Stock	% of FCF	(535)	(712)	(1,318)	(1,382)	(1,317)	(1,333)	Repurchase of common stock only using excess cash after growth and divided investments are done, and also to make sure cash does not grow exponentially, the company will use excess cash that remains to repurchase common stock. Maintaining below the 8$B billion repurchase program the company currently has in place.
Other Financing Activities	$M	236	439	497	548	590	695	Non-Cash increase in Operating Lease Liabilities + Change in other non-current liabilities
Exercise of Stock Options	$M	0	0	0	0	0	0	Assumed to remain null as the latest year

Source: *Author Estimates*

Cash flow statement assumptions reconcile net income with balance sheet changes. Dividend payments grow at a baseline rate of 6% to maintain the annual dividend growth policy, with a defensive floor growth rate of 0.38% applied during net income contractions. Long term borrowing increases automatically to keep leverage in line with the target debt to assets ratio, while common stock repurchases utilize remaining excess cash.

Table A. 29– Forecasting Assumptions: CAPEX

CAPEX	Unit	2027F	2028F	2029F	2030F	2031F	2032TV	Assumptions
Existing Store Investments	$M	1,625	1,661	1,697	1,735	1,773	1,812	Average of the past 4 years, which will then grow with inflation.
New Stores Investments	$M	1,435	825	825	825	825	825	Number of New Stores x Cost per New Store
New Stores		30	17	17	17	17	17	30 new stores in as reported in the annual 10k report, and 17 for the remaining years, in line with the average store growth over the past 4 years.
Cost per New Store		48	48	48	48	48	48	Average cost per store in 2026
Supply Chain	% of Revenue	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	Forecasted as % of revenue using the last 5 years
IT and Other	% of Revenue	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	Forecasted as % of revenue using the last 5 years

Source: *Author Analysis & Company Data*

Capital expenditure projections are split into specific operational drivers based on corporate guidance and historical spending patterns. Existing store investments are modelled using the four-year historical average adjusted annually for inflation. New store investments are calculated by multiplying the projected number of annual store openings by the baseline cost per new store. Allocations for supply chain infrastructure and information technology are forecasted as a fixed percentage of total revenue based on five-year historical trends to support long term digital fulfilment capacity.

Appendix 4: Valuation

Table A. 30 – Cost of Equity, Cost of Debt, WACC

WACC	
Risk Free Rate	4.31%
Country Risk Premium	0%
Market Return	10%
Equity Risk Premium	4.46%
Beta levered	0.99
Cost of Equity	8.72%
Risk Free Rate	4.31%
Credit risk premium	0.78%
Cost of Debt	5.09%
Cost of Debt (after tax)	4.00%
Debt	20,812
Equity	54,290
Debt + Equity	75,102
Tax	21%
WACC	7.41%
Ru	7.71%

Source: *Author Estimates, Damodaran, Moody's & Bloomberg*

The Cost of Equity of 8.72% is calculated via the Capital Asset Pricing Model, using a 10-year US Treasury Note yield of 4.31% as the risk-free rate, Damodaran's implied Equity Risk Premium of 4.46% for the US market, and a Retail (General) industry levered Beta of 0.99. The pre-tax Cost of Debt of 5.09% reflects the risk-free rate plus a credit spread of 0.78% based on Target's Moody's A2 credit rating. Weights are based on the book value of debt of $20,812 million and the market value of equity of 54,290 million, yielding a baseline WACC of 7.41% and an unlevered cost of capital of 7.71%.

Table A. 31– Growth rate – terminal

GROWTH	2026	2027F	2028F	2029F	2030F	2031F	2032TV
ROE	23%	22%	20%	20%	19%	19%	19%
ROIC	13%	13%	12%	12%	11%	11%	11%
Net Income	3,705	3,893	3,868	3,889	3,926	3,934	4,107
Invested Capital	31,440	33,073	34,524	35,960	37,372	38,733	40,177
CAPEX	(3,700)	(5,000)	(4,155)	(4,223)	(4,297)	(4,363)	(4,472)
D&A	2,617	2,617	2,735	2,843	2,947	3,049	3,149
Change in NWC		(257)	14	25	28	22	55
EBIT*(1-t)	3,977	4,166	4,153	4,190	4,244	4,268	4,456
Reinvestment		2,126	1,434	1,406	1,378	1,335	1,378
Reinvestment Rate (FCFF)		51%	35%	34%	32%	31%	31%
Growth (FCFF)		6.4%	4.2%	3.9%	3.7%	3.4%	3.4%
Debt Ratio		49.0%	48.3%	48.5%	48.6%	48.5%	48.4%
Reinvestment Rate (FCFE)		27%	18%	18%	17%	16%	16%
Growth (FCFE)		5.91%	3.67%	3.49%	3.32%	3.10%	3.08%

Terminal Growth (FCFF)	3.4%
Terminal Growth (FCFE)	3.1%

Source: *Author Estimates & Bloomberg*

Terminal growth rates are derived from steady-state reinvestment dynamics rather than historical macro proxies. The terminal firm growth rate of 3.43% is calculated as the steady-state Reinvestment Rate of 31% multiplied by the Return on Invested Capital of 11%. Likewise, the terminal equity growth rate of 3.08% isolates long-term equity capital accumulation, calculated as the equity reinvestment rate of 16% multiplied by the steady-state Return on Equity of 19%.

Table A. 32– FCFF Method

FCFF	2026	2027F	2028F	2029F	2030F	2031F	2032TV
+EBIT*(1-t)	3,977	4,158	4,145	4,182	4,236	4,260	4,447
+Non-cash charges	3,415	2,879	2,999	3,112	3,222	3,329	3,439
-Net increase in NWC		(257)	14	25	28	22	55
NWC	(4,583)	(4,840)	(4,826)	(4,801)	(4,773)	(4,751)	(4,696)
-CAPEX	(3,700)	(5,000)	(4,155)	(4,223)	(4,297)	(4,363)	(4,472)
FCFF		2,294	2,975	3,045	3,133	3,204	3,359
Discount Factor		0.00	0.93	0.87	0.81	0.75	0.70
PV FCFF		0	2,770	2,639	2,528	2,407	61,031

Enterprise Value	71,376
Equity Value	60,240
Shares Outstanding	451
Price per Share	133.52
Market price	119.97
Recommendation	14%

Source: *Author Estimates & Bloomberg*

The Free Cash Flow to Firm is calculated as *NOPAT + Depreciation & Amortization − Capex − Net Increase in NWC*. Operating cash flows are discounted to FY2027 using the Weighted Average Cost of Capital of 7.41% to determine Enterprise Value, from which net debt is subtracted to isolate the baseline equity value per share. Shares outstanding were calculated as the FYE2026 shares outstanding less the forecasted share repurchases throughout FY2027, in order to reach the expected shares outstanding value for the price target date.

Table A. 33– FCFE Method

FCFE	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Net Income	3,705	3,885	3,861	3,881	3,917	3,926	4,098
D&A	2,617	2,617	2,735	2,843	2,947	3,049	3,149
CAPEX	(3,700)	(5,000)	(4,155)	(4,223)	(4,297)	(4,363)	(4,472)
Changes in NWC		(257)	14	25	28	22	55
Net Borrowings		490	718	756	647	631	637
FCFE		2,250	3,145	3,231	3,186	3,221	3,357
Discount Factor		0.00	0.92	0.85	0.78	0.72	0.66
PV FCFE		0	2,893	2,734	2,479	2,306	40,352

Equity Value	50,763
Shares Outstanding	451
Price per Share	112.52
Market price	119.97
Recommendation	-7%

Source: *Author Estimates & Bloomberg*

The Free Cash Flow to Equity is derived via *Net Income + Depreciation & Amortization − Capex – Net Increase in NWC + Net Borrowings*. Equity cash flows explicitly capture financial leverage and lumpy debt principal rebalancing directly within the cash flows, which are subsequently discounted at the levered Cost of Equity of 8.72%.

Table A. 34– DDM Method

DDM	2026	2027F	2028F	2029F	2030F	2031F	2032TV
Dividends Paid	2,053	2,153	2,160	2,168	2,175	2,183	2,271
Discount Factor		0.00	0.92	0.85	0.78	0.72	0.66
PV Dividends		0	1,987	1,834	1,693	1,562	27,297

Equity Value	34,372
Shares Outstanding	451
Price per Share	76.2
Market price	119.97
Recommendation	-42%

Source: *Author Estimates & Bloomberg*

The Dividend Discount Model projects direct capital returns to equity holders via forecasted dividends paid, discounted at the levered Cost of Equity of 8.72%. Because this absolute framework structurally ignores the significant cash deployment allocated toward Target’s $8 billion share repurchase program, it acts as a conservative valuation outlier in our triangulation framework.

Table A. 35– APV Method

APV	2026	2027F	2028F	2029F	2030F	2031F	2032TV
FCFF		2,294	2,975	3,045	3,133	3,204	3,359
Tax Rate		21%	21%	21%	21%	21%	21%
Interest Expense		1,059	1,052	1,058	1,068	1,070	1,117
Interest Tax Shield		227	225	227	229	229	239
Discount Factor Ru		0.00	0.93	0.86	0.80	0.74	0.69
PV FCFF		0	2,762	2,625	2,507	2,380	58,253
PV ITS		0	209	195	183	170	3225

EV	72,510
Equity Value	61,374
Shares Outstanding	451
Price per Share	136.03
Market price	119.97
Recommendation	16%

Source: *Author Estimates & Bloomberg*

The Adjusted Present Value separates the valuation of Target's core operations from its capital structure shields. Baseline operating cash flows are discounted at the unlevered cost of capital of 7.71% to establish an unlevered firm value, to which the present value of the interest tax shield is added to reach the final Enterprise Value.

Table A. 36– Peers Selection

Ticker	Ind Sector	Ind Subgroup	ROE	Net Dbt to EBIT	Rev Gr %	EBIT/Net Sales	Market Cap (millions)	Profitability	Risk	Growth	Op. Characteristics	Size	SARD	SARD Rank	Peer?
TGT US	**Consumer, Cyclical**	**Retail-Discount**	**24**	**3**	**(2)**	**5**	**55,199**	**7**	**8**	**16**	**6**	**6**	**0**		
AMZN US	Communications	E-Commerce/Products	23	1	12	11	2,562,880	9	13	3	2	1	29	10	NO
WMT US	Consumer, Cyclical	Retail-Discount	30	2	5	4	1,010,661	3	12	11	9	2	20	3	YES
COST US	Consumer, Cyclical	Retail-Discount	2	-1	8	4	442,974	15	16	5	11	3	35	14	NO
CVS US	Consumer, Non-cyclical	Pharmacy Services	14	15	8	1	101,670	12	2	6	15	4	32	12	NO
KR US	Consumer, Non-cyclical	Food-Retail	16	11	3	1	41,649	11	3	14	14	7	20	3	YES
DG US	Consumer, Cyclical	Retail-Discount	33	2	4	12	78,983	2	10	13	1	5	16	1	YES
DLTR US	Consumer, Cyclical	Retail-Discount	29	4	10	9	19,641	6	6	4	4	8	19	2	YES
BJ US	Consumer, Cyclical	Retail-Discount	38	3	5	4	12,022	1	7	11	10	10	20	3	YES
SFM US	Consumer, Non-cyclical	Food-Retail	30	2	14	8	7,297	3	9	2	5	12	26	8	NO
ACI US	Consumer, Non-cyclical	Food-Retail	30	10	2	2	8,880	3	4	15	13	11	21	6	NO
FIVE US	Consumer, Cyclical	Retail-Misc/Diversified	18	2	23	10	12,077	10	11	1	3	9	27	9	NO
PSMT US	Consumer, Cyclical	Retail-Misc/Diversified	12	0	7	4	4,852	13	14	8	8	13	29	10	NO
WMK US	Consumer, Non-cyclical	Food-Retail	7	-1	5	2	1,781	14	15	10	12	14	34	13	NO
GO US	Consumer, Non-cyclical	Food-Retail	-21	41	7	-5	671	16	1	7	16	15	44	15	NO
NGVC US	Consumer, Non-cyclical	Food-Retail	24	5	7	5	609	8	5	8	7	16	23	7	NO

Source: *Author Estimates & Bloomberg*

The Sum of Absolute Relative Differences (SARD) model scores potential retail peers across five normalized operational weightings: Return on Equity, Net Debt to EBITDA, Revenue Growth %, EBIT/Sales Margin, and total Market Capitalization. A lower SARD score indicates a higher structural similarity to Target's financial profile, justifying the final selection of the top 5 peer tracking group.

Table A. 37– Relative valuation: Peer Multiples

	P/E	P/B	P/S	P/CF	EV/EBITDA	EV/Sales	EV/EBIT
WMT US	43.21	9.18	1.35	24.55	21.60	1.43	31.68
KR US	12.99	6.13	0.28	6.43	6.78	0.42	12.93
DG US	15.70	2.64	0.57	8.83	8.30	0.90	16.96
DLTR US	14.68	4.16	0.95	8.96	8.36	1.25	14.05
BJ US	20.47	5.19	0.53	28.61	10.29	0.64	17.20
Peer Average	21.41	5.46	0.74	15.48	11.07	0.93	18.56
Peer Median	15.70	5.19	0.57	8.96	8.36	0.90	16.96
TGT US	15.20	3.20	0.52	7.77	8.00	0.67	13.87

Source: *Author Estimates & Bloomberg*

Table A. 38– Relative valuation: Price to Equity Multiple

P/E	
EPS	8.54
Average Peers	15.7
Price	134.15
Market Price	119.97
Hold	12%

Source: *Author Estimates & Bloomberg*

Table A. 39– Relative valuation: EV to EBITDA Multiples

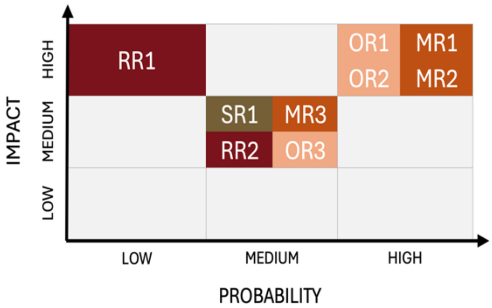
EV/EBITDA	
EBITDA	7,918
Average Peers	8
EV	66,193
Debt	16,946
Cash	5,811
Equity	55,057
Shares Outstanding	451
Price	120.85
Market Price	119.97
Reduce	1%

Source: *Author Estimates & Bloomberg*

Relative valuation computes Target's implied equity value by applying peer median multiples to the corresponding forecasted metrics of the company. For enterprise value multiples like EV/EBITDA, the peer median determines the total enterprise value, where net debt is then subtracted and cash is added to isolate the final equity value per share. For price multiples like Price to Earnings, the peer median is multiplied directly by Target's forecasted earnings per share to calculate the implied standalone price target.

Appendix 5: Risks

Table A. 40 – Risk Matrix



Source: *Author Analysis*

The risk matrix coordinates individual threats based on their estimated probability of occurrence and their potential impact on financial performance. The ten specific risk codes mapped within the matrix are categorized as follows:

- *Market Risks*: MR1 for spending and inflation, MR2 for competition, and MR3 for global supply exposures.
- *Operational Risks*: OR1 for supply chain disruptions, OR2 for inventory shrink, OR3 for labour complications, and OR4 for geopolitical complications.
- *Regulatory Risks:* RR1 for data privacy and RR2 for environmental compliance.
- *Social Risks:* SR1 for diversity equity and inclusion backlashes

Table A. 41 – Sensitivity Analysis: FCFF (g & WACC)

		Terminal Growth										
	133.52	2.68%	2.93%	3.18%	3.43%	3.68%	3.93%	4.18%	4.43%	4.68%	4.93%	5.18%
WACC	6.16%	161.7	174.8	190.0	208.0	229.6	256.1	289.2	331.9	389.0	469.3	590.5
	6.41%	148.9	160.1	173.0	188.1	205.9	227.3	253.5	286.4	328.7	385.2	464.8
	6.66%	137.7	147.4	158.5	171.3	186.2	203.8	225.1	251.0	283.5	325.5	381.5
	6.91%	127.9	136.3	145.9	156.9	169.5	184.3	201.8	222.8	248.5	280.8	322.3
	7.16%	119.1	126.5	134.9	144.4	155.3	167.8	182.5	199.8	220.6	246.1	278.0
	7.41%	111.3	117.8	125.2	133.5	142.9	153.7	166.1	180.6	197.8	218.4	243.7
	7.91%	97.8	103.1	108.9	115.4	122.6	130.8	140.0	150.6	162.8	177.0	193.9
	8.41%	86.8	91.1	95.8	101.0	106.7	113.0	120.1	128.1	137.2	147.6	159.5
	8.91%	77.5	81.1	84.9	89.2	93.8	98.8	104.5	110.7	117.7	125.5	134.4
	9.41%	69.7	72.6	75.9	79.4	83.1	87.3	91.8	96.8	102.3	108.4	115.3
	9.91%	62.9	65.4	68.1	71.1	74.2	77.6	81.4	85.4	89.9	94.8	100.2

Source: *Author Analysis*

The sensitivity analysis evaluates the stability of the baseline valuation when key perpetuity assumptions change. The matrix cross examines a range of weighted average cost of capital discount rates against various terminal growth rates to map out an implied valuation spectrum. This boundaries testing defines the risk parameters of the absolute valuation model and shows how sensitive the final share price target is to shifting macroeconomic environments.

Table A. 42– Monte Carlo: Parameters

SIMULATION ASSUMPTIONS			
Parameter	Base Case	Std Deviation	Distribution
WACC	7.41%	0.008	Normal
Risk Free Rate	4.31%	0.002	Normal
Equity Risk Premium	4.46%	0.002	Normal
Unlevered Beta	0.76	0.095	Normal
Terminal Growth (FCFF)	3.43%	0.005	Normal
Terminal Growth (FCFE)	3.08%	0.005	Normal
COGS % of Revenue	72.07%	0.003	Normal
SGA % of Revenue	20.41%	0.003	Normal

Source: *Author Analysis*

Table A. 43– Monte Carlo: Probability Distribution

SIMULATION RESULTS		
Metric	FCFF Price Target ($)	FCFE Price Target ($)
Mean Price	138.54	114.76
Median Price	134.16	112.73
Std Deviation	34.59	20.95
5th Percentile (Bear)	91.41	84.15
25th Percentile	114.06	100.26
75th Percentile	157.14	126.89
95th Percentile (Bull)	198.86	151.87
Prob. > Market Price	67.9%	36.4%

Source: *Author Analysis*

The Monte Carlo simulation runs ten thousand randomized iterations to stress test the intrinsic price target against simultaneous changes in multiple operational and macroeconomic drivers. Input variables including revenue growth, the equity risk premium, the unlevered beta, the risk-free rate, and core margin percentages varied based on normal probability distributions. The resulting probability distributions establish the mathematical likelihood of the stock outperforming its current market price and validate the directional risk profile of the final investment recommendation.

Table A. 44– Scenario Analysis: Parameters & Probability Distribution

Metric	Bull	Base	Bear
COGS%	71.6%	72.1%	72.6%
SG&A%	19.9%	20.4%	20.9%
WACC	6.9%	7.4%	7.9%
Terminal Growth	3.9%	3.4%	2.9%
FCFF Equity Value	80,711.6	60,240	39,241.1
FCFF Share Price	$180.09	$133.52	$86.13
Market Price	$119.97	$119.97	$119.97
Upside / Downside	+50.1%	+14%	-28.2%
Recommendation	Buy	Buy	Sell
Equity Value Impact vs Base	+$20,989.9	-	-$20,480.6
Share Price Impact vs Base	+$47.72	-	-$46.24

Source: *Author Analysis*

Disclosures and Disclaimers

AI Disclosure

This project was developed with strict adherence to the academic integrity policies and guidelines set forth by ISEG, Universidade de Lisboa. The work presented herein is the result of my own research, analysis, and writing, unless otherwise cited. In the interest of transparency, I provide the following disclosure regarding the use of artificial intelligence (AI) tools in the creation of this thesis/internship report/project:

I disclose that AI tools were employed during the development of this thesis as follows:

- AI-based research tools were used to assist in the literature review and data collection.
- AI-powered software was utilized for data analysis and visualization.
- AI was used to improve English and grammar.
- Generative AI tools were consulted for brainstorming and outlining purposes. However, all final writing, synthesis, and critical analysis are my own work. Instances where AI contributions were significant are clearly cited and acknowledged.

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Benjamin de Beer, June 30th 2026

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20%
Medium-High Risk	-2.5%≤	>-2.5% & ≤7.5%	>7.5% & ≤17.5%	>17.5%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15%
Medium-Low Risk	-7.5%≤	>-7.5% & ≤2.5%	>2.5% & ≤12.5%	>12.5%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10%