

Target Corp TGT ★★★★★ 19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	None	Mid Value	Medium	Exemplary	4 Jun 2025 05:00, UTC

Sector	Industry
Consumer Defensive	Discount Stores

Business Description

Target serves as the nation's seventh-largest retailer, with its strategy predicated on delivering a gratifying in-store shopping experience and a wide product assortment of trendy apparel, home goods, and household essentials at competitive prices. Target's upscale and stylish image began to carry national merit in the 1990s—a decade in which the brand saw its top line grow threefold to almost \$30 billion—and has since cemented itself as a leading US retailer. Today, Target operates over 1,900 stores in the United States, generates over \$100 billion in sales, and fulfills over 2 billion customer orders annually. The firm's vast footprint is concentrated in urban and suburban markets as the firm seeks to appeal to a more affluent consumer base.

growth against mid-single-digit operating margins over the longer term.

Coming up: We suspect the unfavorable stock market reaction is a byproduct of the executive leadership appointment and questions around whether Fiddelke, a long-tenured employee, will be able to drive the necessary change to reignite top-line performance.

- On the contrary, our initial read suggests Fiddelke is operating with urgency to return Target to a positive sales trajectory by making investments, particularly as related to products and the store experience.

Business Strategy & Outlook Erin Lash, CFA, Sector Director, 30 May 2025

Target has built a well-known brand over the past several decades, establishing itself as one of the nation's leading retailers focused on delivering a gratifying in-store shopping experience while boasting an assortment of trendy apparel, home goods, and household essentials at competitive prices.

Target's investments in store renovations and digital fulfillment proved lucrative early in the pandemic as sales surged by 40% from 2019-2022 amid strong consumer spending and a pandemic-induced trend toward trip consolidation. With that said, while Target impressively managed a dynamic retail landscape at the time, the company continues to face a proliferation of digital competition. We suspect that the nation's preeminent retailers, wide-moats Walmart and Amazon, will likely continue serving as disinflationary forces across many discretionary product categories, which we view as the most susceptible to digital competition, due to the seamlessness of comparing prices across channels. The retailer also faces competition from the increasing popularity of warehouse clubs, which puts ample pressure on Target's household essential-product offerings.

Due to a largely undifferentiated product offering, we surmise Target will need to continuously reinvest in its supply chain to drive cost efficiencies across procurement and multichannel order fulfillment to deliver competitive prices and yield margin expansion. The retail industry is cutthroat, and we believe it will remain difficult for companies that lack a clear value proposition (such as lowest price, superior product quality, or enhanced selection) across product categories to consistently gain market share.

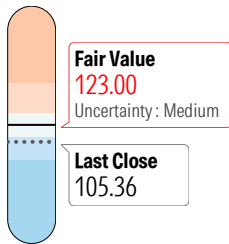
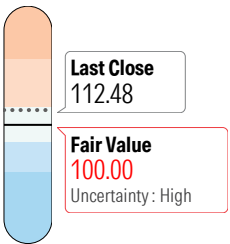
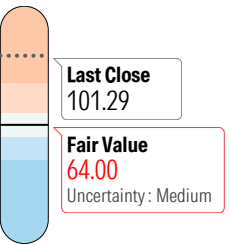
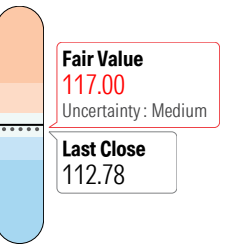
Bulls Say Erin Lash, CFA, Sector Director, 30 May 2025

- Given its iconic brand that attracts consumers due to its promise of a more gratifying customer experience compared with other low-cost retailers, we are confident in Target's ability to drive recurring foot traffic.
- Based on its performance during the pandemic, we view Target as a formidable online retailer, putting to rest many concerns about its ability to compete in a digital retail environment.
- Target is poised to benefit from the continued decline of mall-based competition and department stores, which will drive strong growth in comparable sales.

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Competitors

	Target Corp TGT	Dollar Tree Inc DLTR	Walmart Inc WMT	Dollar General Corp DG
				
Economic Moat	None	None	Wide	Narrow
Currency	USD	USD	USD	USD
Fair Value	123.00 23 May 2025 00:59, UTC	100.00 8 Apr 2025 20:01, UTC	64.00 15 May 2025 19:43, UTC	117.00 9 Jun 2025 19:42, UTC
1-Star Price	166.05	155.00	86.40	157.95
5-Star Price	86.10	60.00	44.80	81.90
Assessment	Undervalued 19 Aug 2025	Fairly Valued 19 Aug 2025	Overvalued 19 Aug 2025	Fairly Valued 19 Aug 2025
Morningstar Rating	★★★★★ 19 Aug 2025 21:21, UTC	★★★ 19 Aug 2025 21:24, UTC	★ 19 Aug 2025 21:20, UTC	★★★★ 19 Aug 2025 21:41, UTC
Analyst	Erin Lash, Sector Director	Dan Su, Equity Analyst	Erin Lash, Sector Director	Dan Su, Equity Analyst
Capital Allocation	Exemplary	Standard	Standard	Standard
Price/Fair Value	0.86	1.12	1.58	0.96
Price/Sales	0.46	1.23	1.19	0.60
Price/Book	3.20	6.05	9.65	3.22
Price/Earning	12.96	22.19	43.29	21.52
Dividend Yield	4.27%	0.00%	0.90%	2.09%
Market Cap	47.87 Bil	23.47 Bil	808.34 Bil	24.82 Bil
52-Week Range	87.35—167.40	60.49—118.06	73.72—105.30	66.43—126.98
Investment Style	Mid Value	Mid Blend	Large Blend	Mid Value

Bears Say Erin Lash, CFA, Sector Director, 30 May 2025

- ▶ Target lacks the scale and differentiation to drive significant market share across its categories, since its product offerings lack a clear value proposition.
- ▶ Despite being the nation's seventh-largest retailer, Target must constantly invest in cost-saving initiatives, product innovation, and store renovations just to keep up with behemoths Walmart and Amazon.
- ▶ Target's higher-margin discretionary product categories, such as apparel and home furnishings, are susceptible to losing market share via digital retail penetration, which could weaken the firm's margins.

Economic Moat Erin Lash, CFA, Sector Director, 30 May 2025

We do not believe Target warrants an economic moat. Despite its iconic and trendy brand, we view Target's position in the hyper competitive retail environment as rather ambiguous, which dilutes our

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confidence in the durability of its brand to drive consistent store traffic. Furthermore, we don't see sufficient evidence to award Target a cost advantage. Although it is the nation's seventh-largest retailer, we do not believe the firm exhibits irreplicable scale across its individual product categories that would suggest it has amassed negotiating prowess over its supplier partners.

Target's ambiguous position in the retail industry makes the firm susceptible to changing consumer preferences and online competition, in our view. We believe the retailer is at a crossroads, trying to balance an undifferentiated low-cost grocery portfolio that drives recurring traffic but doesn't dilute the firm's reasonably priced upscale, trendy product offerings in apparel and home goods. The firm's unclear value proposition was evident, in our view, upon the retirement of Bob Ulrich in 2008, who successfully built Target into a leading retailer during his 14 years at the helm. Immediately following Ulrich's retirement, however, a seemingly bureaucratic culture ensued, prompting years of underinvestment in stores, an unclear position in grocery, and costly strategic missteps (such as Target's abysmal foray into Canada) that led to anemic trends in transaction volume. We note that comparable sales growth averaged a mere 1.5% from 2010 to 2016 (compared with growth in retail sales at warehouse clubs and superstores of 3.7%) while transaction volume was roughly flat.

However, since Brian Cornell took the helm in 2014, Target has accelerated its investments in store renovations, IT infrastructure, private-brand development, and the supply chain to satisfy omnichannel fulfillment, resulting in a substantial improvement in the retailer's transaction volume beginning in 2017 (Target has posted average growth in transaction volume of 2.6% over the past five years). We believe Target's management team has executed flawlessly by threading the needle between trendy product offerings and low price and has laid the foundation for the firm to potentially warrant an economic moat rating. Still, however, we view Target's product assortment and shopping experience as replicable, which makes us question Target's ability to generate durable returns on invested capital in excess of our weighted average cost of capital given our view that retailers could quickly fall out of favor—especially those with an undifferentiated value proposition across product categories.

From a brand standpoint, while Target is seemingly ubiquitous among American consumers, we do not believe Target's business model offers significant differentiation from the likes of other retailers that would warrant a durable brand advantage. Cognizant of its size relative to its fellow superstore competitor (Target's \$105 billion in 2024 sales is about one fourth of Walmart's US sales), Target doesn't attempt to be the nation's lowest-priced retailer and instead emphasizes offering an impeccable shopping experience. As such, Target's stores are clean, well-lit, adequately staffed, and full of seemingly trendy product offerings—elements of the customer experience we view as replicable.

Even as providing a gratifying customer experience allows Target to consistently score above Walmart on consumer satisfaction surveys (which bodes well for Target's brand), we believe Target's product offerings lack a clear value proposition. The retailer delivered several years of underwhelming growth,

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prior to the pandemic, in lucrative product categories that are most associated with the firm's upscale and trendy persona—apparel and accessories and home furnishings—making it difficult to justify a brand intangible asset. According to Euromonitor, the combined apparel, sportswear, and personal accessory market grew by an average rate of nearly 4.0% from 2010-2019, while Target's apparel and accessory category posted average growth of about 1.3%. Target's home furnishing sales also modestly underperformed the home furnishing and homewares market during the same time period. While the categories appeared to be revived during the pandemic years, we believe a degree of trepidation is warranted before declaring the retailer's recent market share gains as durable, especially after several years of unprecedented growth in consumer spending, minimal promotional activity across the retail industry, and a pandemic-induced trend toward trip consolidation that helped propel Target's growth in transaction volume.

Furthermore, while we commend Target for leaning into its higher turnover product categories in recent years to drive a more recurring stream of traffic, these offerings remain dwarfed by its superstore competitor and other large-scale grocers. The retailer's food and beverage and beauty and household essentials categories combined for about \$55 billion in sales during 2024 but remain about one-fifth the size of Walmart's domestic grocery category and about two-fifths the size of Kroger's total sales excluding fuel. Target's grocery sales are roughly on par with that of Publix—a supermarket chain concentrated in the southeast United States—but we surmise that Target lacks a similarly concentrated geographic strategy, which makes it difficult to award a scale-driven cost advantage in the grocery category.

We also suspect that Target's assortment of grocery items tends to be limited relative to its larger peers, such as Walmart and Kroger, and its private brands offer minimal differentiation, in our view. Without a value proposition underpinned by lowest price, enhanced quality, or superior product selection, we surmise that Target is acutely susceptible to changes in consumer behavior, which already poses a threat to all retailers given the absence of customer switching costs. We note that Target's food and beverage category has shown improvement since the mid-2010s—a time that featured poor product turnover and inventory spoilage—due to management's resounding commitment to the category and meticulous investments to enhance product displays and incorporate more health-conscious private-brand offerings. Nonetheless, we still view Target's grocery offering as lacking differentiation and find success in the category to be uncertain due to its unclear value proposition.

We were encouraged by Target's market share gains from 2020-2022 across each of its product categories and view its recent growth as potentially moat-endowing. A steep uptick in mall vacancies in the late 2010s may have cleared the way for Target to dominate certain geographic areas that now lack a centralized shopping hub. However, we remain hesitant to award Target a moat as competing brick-and-mortar retailers (such as Walmart, Costco, Aldi, TJX, and Ross Stores) continue to expand their physical footprint. Part of our trepidation surrounding Target's recent share gains is also driven by the

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pronounced rise of digital innovation and e-commerce retail sales, which doubled in the fourth quarter of 2024 compared with the fourth quarter of 2019 according to the US Census Bureau. While we commend Target for impressively managing the rampant digital adoption over the past four years, with the firm's digital sales increasing by nearly fourfold since 2018 to around \$20 billion (about 20% of total sales), we still view Target's discretionary product offerings such as apparel, home furnishings, and consumer electronics as most vulnerable to online competition. According to the National Retail Federation, online sales typically constitute around 30%-40% of the aforementioned categories' retail sales, while we note that grocery is more insulated at about 12% (per eMarketer). As a result, we surmise that Target relies heavily on its grocery category (which we view as largely undifferentiated) to drive recurring foot traffic to its stores.

We believe Target's business model has traces of an advantage that make it at least partially resilient to online competition. The firm's close proximity to the majority of American consumers (Target's stores are located within 10 miles of 75% of the US population) allows the firm to leverage its "stores as hubs" model where stores fulfill 97% of total sales, and we surmise that some consumers may prefer online shopping channels (such as Target.com) that avoid an inundating product selection. We note that Walmart's third-party marketplace already boasts over 700 million SKUs, while Target's third-party marketplace is far smaller given its invite-only policy for sellers. However, we expect retail juggernauts, Walmart and Amazon, to likely serve as disinflationary forces across discretionary categories for years to come. Without a clear procurement advantage over its immense retail peers and a portfolio of private-label brands that offer minimal differentiation and lackluster brand recognition (Target carries over 45 private brands but only 12 boast annual sales in excess of \$1 billion), we suspect that Target will need to be more promotional to drive sales of its discretionary product offerings.

We surmise that margin pressure across Target's discretionary product categories could extend to its food and beverage and household essentials categories. Pure-play grocers such as Kroger and Albertsons—along with Walmart's domestic grocery category—typically carry operating margins in the low single digits (2.0%-3.0%). With Target's grocery prices often comparable to the likes of traditional supermarkets and Walmart despite being paltry in scale, we surmise that Target is willing to accept low margins on its grocery offerings due to its higher-margin discretionary categories such as apparel, home furnishings, and electronics. Online competition in discretionary categories may partially hinder the firm's willingness to accept lower margins and offer competitively priced groceries in the future, which is a driver of recurring foot traffic.

Regarding its target market, Target seeks to attract more affluent shoppers relative to Walmart due to its more upscale and trendy perception. According to GlobalData, the average household income of Target's shoppers is roughly \$79,000, well outpacing the average Walmart consumer at \$62,000. As the firm's typical consumer often resides in more affluent cities, Target appears to position its stores in densely populated suburban markets. While seemingly beneficial from a foot traffic point of view, we

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find urban markets to be susceptible to a high degree of competition given the wide array of alternatives for consumers to choose from, making it difficult for Target to underpin a location advantage (compared with a firm such as narrow-moat Dollar General, which frequently targets rural or small suburban markets with less competition), particularly given that its product offerings appear replicable.

Furthermore, we think higher-income consumers are more likely to shop for particular brands (and even change shopping habits to find better prices) by perusing other retail locations and digital channels. We believe Target faces the risk of failing to retain its more affluent consumer base due to the firm's lack of a compelling value proposition across its product categories. On the flip side, Walmart's less affluent consumer base is typically easier to retain since consumers' desire for the lowest price stands the test of time.

And while we commend the retailer for growing its RedCard and Target Circle loyalty offerings in an attempt to drive digital engagement, we do not view either benefit as irreproducible. Target's RedCard offers 5% discounts on most store items at purchase when using the card, and adoption has continued to grow over the past decade. However, only about one fifth of Target's sales are transacted via a RedCard, making it difficult to award a data advantage or justify the card offering as a source of customer loyalty. Additionally, we are encouraged by Target's successful rollout of its Target Circle loyalty program, which boasts over 100 million users. We think the retailer may gain some valuable insight into individual customer behavior that can be used to offer more targeted advertising rather than mass discounting, luring shoppers back to the store. Nonetheless, it is difficult to compare the stickiness of Target's loyalty program due to it being a free membership (compared with Walmart+ at \$98 per year and Amazon Prime at \$139 per year) and providing minimal benefits relative to those offered by larger peers. As such, we do not view Target Circle as a key driver of customer retention yet.

Overall, we remain hesitant to award Target a moat at this time, though Target's performance has improved in recent years and the brand carries traces of a moat-endowing intangible asset. While we would be remiss to ignore the connection that consumers have with the Target brand and the brand's national merit, Target's portfolio of product offerings is undifferentiated, in our view, and we do not see quantitative evidence of a cost advantage or location advantage that would reinforce customer traffic to its stores. We find it difficult to award retailers a durable competitive advantage without having an advantage in at least one of these three categories. As a result, we view the firm's success as contingent upon strong capital allocation from the executive team to maintain a stellar brand image and a solid company culture that consistently rolls out new innovative designs across apparel and home furnishings categories. Balancing Target's unique and trendy persona is no easy task when boasting a replicable suite of product offerings and touting a competitive advantage that is driven by superior customer service, which we also view as replicable.

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Fair Value and Profit Drivers Erin Lash, CFA, Sector Director, 30 May 2025

We holding the line on our \$123 per share fair value estimate for Target. Recently, the retailer delivered underwhelming first-quarter results, as comparable sales slipped 3.8% (versus our forecast for a 2% decline) and adjusted EPS fell 36% to \$1.30. Weak demand for discretionary items drove the bulk of the poor top-line performance, while higher frequency categories held up better. Amid deteriorating consumer confidence and uncertainty due to potential tariffs, management cut its guidance for 2025 adjusted EPS to \$7.00-\$9.00 (from \$8.80-\$9.80). Indeed, we lowered our 2025 adjusted EPS forecast to \$7.58 (from \$9.01) to better align with the updated guidance and the precarious spending environment. We also expect results to remain under pressure in 2026, prompting us to reduce our 2026 EPS forecast to \$8.44 (from \$9.77). Our fair value estimate implies a forward fiscal 2025 adjusted P/E of about 16 times.

We continue to take a conservative view regarding Target's long-term growth and margin trajectory. In early 2022, management set a long-term target for mid-single-digit top-line growth and an operating margin of at least 8%, though management has since pared back its margin outlook. While we are encouraged by Target's investments over the past several years to build out its digital fulfillment capabilities and develop trendy brands to drive market share gains across product categories, we view its sales aims as ambitious, given the highly competitive retail industry. The days of rapid store expansion are behind Target, implying that most growth will be derived from comparable sales. From 2010 to 2019, Target posted average growth of 1.0% in both average ticket and transaction volume, and our 10-year forecast calls for 2.5% growth in comparable sales, coupled with modest growth via the expansion of smaller store formats in urban markets and on college campuses.

We expect Target's operating margin to gradually improve from the 5.2% level it posted in 2024 to our midcycle operating margin of 6.0%, which closely aligns with Target's 10-year average margin. We take a favorable view of Target's ongoing investments to drive efficiencies across fulfilment channels, such as through the aggressive rollout of sortation centers meant to cut down final-mile costs on home delivery. Coupled with other process-oriented investments, Target expects to drive \$2 billion-\$3 billion of cost savings over the next several years. We also appreciate the positive yield that targeted advertising can deliver (via the Target Circle platform) as opposed to mass discounting.

However, we still find it difficult for Target to deliver pronounced margin expansion over the long run. For one, while we are encouraged by the potential repeat foot traffic that comes from embracing the food and beverage category, we estimate this category carries an operating margin in the low single digits. As such, Target's aspirations to widen its higher-turnover product categories may yield downward pressure on its margins. Additionally, Target still faces stiff competition from a hypercompetitive retail industry. Fellow discounters (such as Walmart), grocers (Kroger and Albertsons), and warehouse clubs (Costco and Sam's Club) are investing to drive supply chain

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efficiencies, improve digital fulfillment, roll out new private brands, and monetize targeted advertising, which should prevent Target from incurring substantial margin expansion for a prolonged period.

Risk and Uncertainty Erin Lash, CFA, Sector Director, 30 May 2025

We assign Target a Medium Uncertainty Rating.

The rise of digital penetration serves as a formidable threat to Target's traditional brick-and-mortar retail model. Price shopping has become rather seamless as consumers increasingly begin their product searches via digital channels, making Target susceptible to price competition amid an industry where consumers face virtually no switching costs. The retail industry's preemptive leaders—Walmart and Amazon—boast unrivaled scale and an impressive ability to invest in supply chain automation to mitigate costs. We expect Walmart and Amazon to serve as disinflationary forces in the industry for years to come, putting pressure on retailers that lack a differentiated product offering, vast scale, or a concentrated geographic focus.

Target's business model also faces uncertainty due to its high mix of general merchandise such as apparel, electronics, and home furnishings, which we believe is most susceptible to digital competition. Many of these products are also sourced internationally, putting Target in the crosshairs of tariffs. Further, the company lacks a clear positioning in grocery, in our view. We surmise that its food and beverage products add a nice element of convenience, which helps drive recurring foot traffic, allowing the firm to serve as a one-stop shop, but offers minimal differentiation from both a product quality and cost perspective. While we are encouraged by the firm's improvements in its higher-turnover product categories, we note that the size of these categories still pales relative to larger peers such as Walmart and Kroger.

We don't think Target suffers from any material environmental, social, and governance risks, but the most pertinent likely stem from food safety concerns, possible degradation of its employee relationships, and potential data breaches.


Capital Allocation Erin Lash, CFA, Sector Director, 23 May 2025

We believe Target warrants an Exemplary Capital Allocation Rating.

For several years following the 2008-09 financial crisis, Target delivered subpar results. A seemingly bureaucratic culture appeared to undermine Target's identity as a trendy retailer, which suppressed comparable sales growth and traffic trends. The retailer was also plagued with several strategic missteps—such as the foray into Canada in the mid-2010s and the costly data breach in December 2013—which caused internal strife and likely diverted attention from renovating stores and developing new private brands.

Upon CEO Brian Cornell's arrival in 2014, the firm appeared to turn a corner. In 2015, the retailer

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dumped its ailing operations in Canada and later sold its noncore pharmacy operations to CVS for \$1.8 billion (CVS now pays Target a rental fee to operate pharmacies out of its existing stores). Management also began emphasizing the renovation of its weary store locations, expansion via smaller store formats in urban markets, and prioritized investments to improve its supply chain and digital fulfillment capabilities. By 2017, in recognition of a quickly changing retail landscape, Target's management team decided to accelerate its investments in store remodels and digital fulfillment. As a result, investments in existing stores immediately doubled and have continued to grow since. In December 2017, the company acquired Shipt, an online same-day delivery platform that utilizes a network of gig workers to deliver online orders from stores to consumers' homes. Management also addressed the retailer's ailing grocery operations that suffered from an unclear value proposition, underwhelming product turnover, and spoilage by enhancing product displays and stocking the shelves with healthier brand offerings.




Target's investments quickly showed signs of materializing, with the retailer posting impressive growth in transaction volume of 1.6%, 5.0%, and 2.7% in 2017, 2018, and 2019, respectively. The retailer also excelled during the pandemic as its investments in digital fulfillment and its "stores as hubs" strategy prompted a pronounced rise in online sales and double-digit comparable sales growth in 2020 and 2021. We commend the management team for balancing investments to optimize its back-end fulfillment capabilities (enabling the firm to fulfill orders via multiple methods such as in-store pickup, curbside pickup, and home delivery) while continuing to invest in Target's trendy brand image through existing store renovations and new private-label brand offerings.

The firm's capital distributions also appear appropriate. Target is properly characterized as a Dividend Aristocrat, having raised its dividend for more than 50 consecutive years (dating back to its days as Dayton Hudson). The firm delivered a \$4.46 per share dividend in fiscal 2024, representing a 2% increase over 2023 levels and more than double its 2014 dividend when Cornell took the helm. Management targets a long-term payout ratio of 40%, which we think is reasonable.

Target is much less acquisitive than its fellow superstore peer, Walmart—in part because it has avoided expanding beyond US borders since its failed operations in Canada—and thus uses most of its excess cash after reinvestments and dividends to repurchase shares. The company repurchased \$24 billion of stock over the past 10 years (using one-third of cumulative free cash flow), and we model for Target to repurchase \$20 billion of stock over our 10-year forecast. We view repurchases as a sound use of cash when shares trade at a discount to our intrinsic valuation.

We expect Target to incur elevated capital expenditures over our explicit forecast period (we model around \$3.5 billion-\$5.0 billion of capital expenditures per year compared with the firm's 10-year average of \$3 billion) as the firm strives to keep pace with the dynamic retail environment. We expect the firm to invest aggressively in its digital fulfillment capabilities to keep pace with the likes of Walmart and Amazon and continually reinvest in its stores to maintain its trendy and upscale perception with consumers.

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Analyst Notes Archive


Target Earnings: Financial Marks Under Pressure Amid Precarious Economic Climate, Tough Competition Noah Rohr, Equity Analyst, 21 May 2025

Target's revenue declined 3% in the first quarter, underpinned by a 3.8% drop in comparable sales. Transaction count and average ticket declined by 2.4% and 1.4%, respectively. Profits were pressured as adjusted operating margin fell 160 basis points to 3.7% and adjusted EPS dropped 36% to \$1.30. Why it matters: Target continues to grapple with intense competition and deteriorating consumer confidence. Management also cited a negative reaction to its rollback of diversity, equity, and inclusion initiatives, but we think the former factors were more significant drivers behind its recent performance. Target's merchandise sales declined 3%, primarily due to soft demand in discretionary categories. Indeed, sales of apparel, accessories, hardlines, and home furnishings collectively fell by 5%. Food, beverage, beauty, and household essentials held up better, collectively declining by just 1%. The retail landscape remains competitive as firms compete for foot traffic and digital sales. Management tracks market share performance across 35 broad product divisions, of which Target lost share in 20 categories. We expect competition to pressure sales throughout 2025. The bottom line: We plan to lower our \$135 fair value estimate on no-moat Target by a high-single-digit percentage as the firm's financial marks and guidance proved underwhelming. Still, investors' sentiment seems overly pessimistic, and we view shares as undervalued. Management cut its adjusted EPS guidance for fiscal 2025 to \$7-\$9, from \$8.80-\$9.80 previously. We plan to bring our \$9.01 preprint 2025 EPS forecast to the lower end of management's guidance range and lower our forecast for 2026 EPS to around \$8.50 from \$9.77. Half of Target's sales come from items that are sourced internationally, leaving the firm exposed to tariffs. While the impact that higher prices have on demand remains to be seen, management noted that its wide guidance range reflects the added uncertainty that tariffs offer.

Target Earnings: Better-Than-Expected Results Overshadowed by Management's Cautious Outlook Noah Rohr, Equity Analyst, 4 Mar 2025

After digesting no-moat Target's fiscal 2024 fourth-quarter earnings release, we don't plan to alter our \$135 fair value estimate materially. Results looked solid as comparable sales expanded 1.5%, outpacing our forecast for flat growth. And while its operating margin declined 110 basis points to 4.7% due to factors such as higher costs associated with digital fulfillment and wages, the performance still came in better than our 4.3% forecast. Despite the positive results, we plan to lower our forecast for fiscal 2025 comparable sales growth to about flat (from 2.5%), which is consistent with the firm's guidance for the full year. Shares declined by a low-single-digit percentage on March 4, which, we think, is a result of management's tepid sales outlook. Indeed, management noted that demand for discretionary items deteriorated in February (the first month of fiscal 2025) amid waning consumer confidence. Management also cited tariffs as an added layer of uncertainty that may affect consumers' appetite.

Target Corp TGT ★★★★★ 19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	None	Mid Value	Medium	Exemplary	 4 Jun 2025 05:00, UTC

With about 50% of Target's sales derived from discretionary categories such as apparel, electronics, and home furnishings, we acknowledge that the retailer is susceptible to cyclical swings in consumer demand. Target posted double-digit comparable sales growth in 2020 and 2021 when demand for discretionary goods was robust. While fiscal 2025 looks poised to be a tumultuous year, we still think Target is capable of posting low-single-digit comparable sales growth longer term, which is roughly consistent with our expectations for growth across the retail industry broadly. Comparable sales growth in the fourth quarter was underpinned by a 2% gain in transaction count as consumers flocked to Target's digital channels. For the full year, about 20% of Target's sales were originated online, up from 9% in 2019. We commend Target for embracing the online channel but acknowledge that stringent competition from omnichannel retailers (such as wide-moat Walmart) still exists.


Target Earnings: Shares Crater Amid Weak Demand for Discretionary Items, Further Margin Pressure Noah Rohr, Equity Analyst, 20 Nov 2024

We plan to lower our \$140 fair value estimate on no-moat Target by a low- to mid-single-digit percentage after the retailer's third-quarter results of 1% top-line growth and \$1.85 in EPS landed well below our expectations. Management also cut its full-year EPS guidance to a range of \$8.30-\$8.90 from \$9.00-\$9.70 previously. Thus, we plan to reduce our forecast for fiscal 2024 comparable sales to a slight decline from a 0.5% gain and bring our EPS forecast to within management's updated guidance range from our \$9.31 preprint estimate. Still, our planned fair value estimate cut does not rival the 20% intraday selloff in shares on Nov. 20, as we consider our longer-term outlook for 2.5% comparable sales growth and an operating margin of around 6.0%-6.5% to be intact. Top-line results remained lackluster as comp sales expanded a mere 0.3% (versus our forecast for a 2% gain) despite lapping an abysmal 5% drop last year. Modest growth in high-frequency categories was largely offset by weak demand for discretionary items as management indicated that consumers have grown increasingly selective with their spending. With nearly half of Target's sales tied to apparel, hardlines, and home furnishings, we acknowledge that the firm is amply exposed to cyclical swings in consumers' spending capacity. We also surmise that Target is grappling with a stringent competitive landscape as retailers have looked to drive traffic growth in recent quarters. Notably, wide-moat Walmart reported domestic comp growth of 5% in its most recent quarter and both Walmart and Costco have cited positive trends in general merchandise sales of late, which contrasts with Target's results. Target's operating margin declined 60 basis points to 4.6% as management cited a myriad of headwinds, including higher digital fulfillment costs, unfavorable mix, and expense deleverage from anemic sales growth. We expect the firm's operating margin to languish around 5% until a rebound in discretionary demand occurs.

Target Earnings: Sales Inflection Could Prove Fleeting Amid Mounting Competition; Shares Rich Erin Lash, CFA, Sector Director, 21 Aug 2024

At first blush, no-moat Target chalked up decent second-quarter results, as comparable store sales

Target Corp TGT ★★★★★ 19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	None	Mid Value	Medium	Exemplary	 4 Jun 2025 05:00, UTC

grew 2% and operating margins jumped 160 basis points to 6.4%, resulting in a low-double-digit surge in the stock price. However, upon further review, we've taken a tempered stance. For one, while the turn to positive same-store sales (after four quarters of declines) is a plus, the firm was lapping a disastrous period last year during which comparable store sales slumped 5.4% on a 4.8% reduction in transactions following consumer backlash around its Pride month assortment. We recognize that Target has made strides since then—making necessary investments to enhance its assortment, price points, store experience, and omnichannel supply chain—but we're skeptical the benefits will hold given Target's undifferentiated product assortment and lack of a clear cost advantage relative to other discount retailers, particularly amid an intensely competitive retail landscape. In this context, Target's comp was still a far cry from the 4.2% growth wide-moat Walmart boasted in its US arm in the most recent period. Beyond the sales line, we also doubt the firm is poised to extract much more in the way of margin gains over the next several years, as we believe Target will need to continuously reinvest in its supply chain to drive cost efficiencies across procurement and multichannel order fulfillment to deliver competitive prices. Even as management revised its fiscal 2024 outlook to call for comparable store sales growth in the lower half of its prior aims (flat to up 2%) and EPS of \$9.00-\$9.70 (from \$8.60-\$9.60), our 0.5% and \$9.13 per share respective preprint marks square with these ranges. As such, we don't foresee a material change to our \$136 per share fair value estimate. But after the ascent in shares, we now see the stock as trading in a range that we'd consider inflated; we think investors should await a more attractive risk/reward opportunity before stocking up.




Target Earnings: Margins Hold Up, but Top Line Remains Constrained by Weak Discretionary Spending Noah Rohr, Equity Analyst, 22 May 2024

No-moat Target's fiscal 2024 first-quarter results landed mostly in line with our expectations and we do not plan to alter our \$136 fair value estimate materially. Shares trade in fairly valued territory after shedding about 7% in early trading on May 22. Comparable sales for the quarter fell 3.7% (versus our estimate for a 4% decline) amid a nearly 2% drop in traffic and average ticket. Management characterized the broader spending environment as resilient, but noted that discretionary categories such as home and hardlines remain under pressure. Frequency items such as food and household essentials also suffered a modest decline amid weak unit volumes and lackluster pricing gains, which we think implies market share losses in the category. We surmise the firm's weakness in nondiscretionary categories helped prompt its recent announcement for price reductions across 5,000 frequently shopped items. As consumers more acutely prioritize spending on high-frequency goods, we maintain our view that Target's undifferentiated product assortment and lack of a clear cost advantage relative to other discount retailers make its value proposition precarious. We think this dynamic is evidenced by Target's recent top-line underperformance compared with its principal competitor, wide-moat Walmart, which posted comp sales growth of nearly 4% in its first fiscal quarter. Still, we forecast Target's full-year comparable sales growth to land near the low end of management's guidance range

Target Corp

TGT★★★★

19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	 None	 Mid Value	Medium	Exemplary	 4 Jun 2025 05:00, UTC

of flat to 2% as we think the firm's top line should improve in coming quarters due to the lapping of easier comps. Positively, Target's operating margin improved 10 basis points to 5.3% as a 140-basis-point increase in gross margin more than offset expense deleveraging on SG&A. We forecast about 20 basis points of operating margin expansion for the full year, though our 5.5% estimate lags Target's 10-year average of 6.2% as we expect price competition to intensify across the retail landscape.

Target Earnings: Margins Show Encouraging Improvement, but Sales Remain Weak

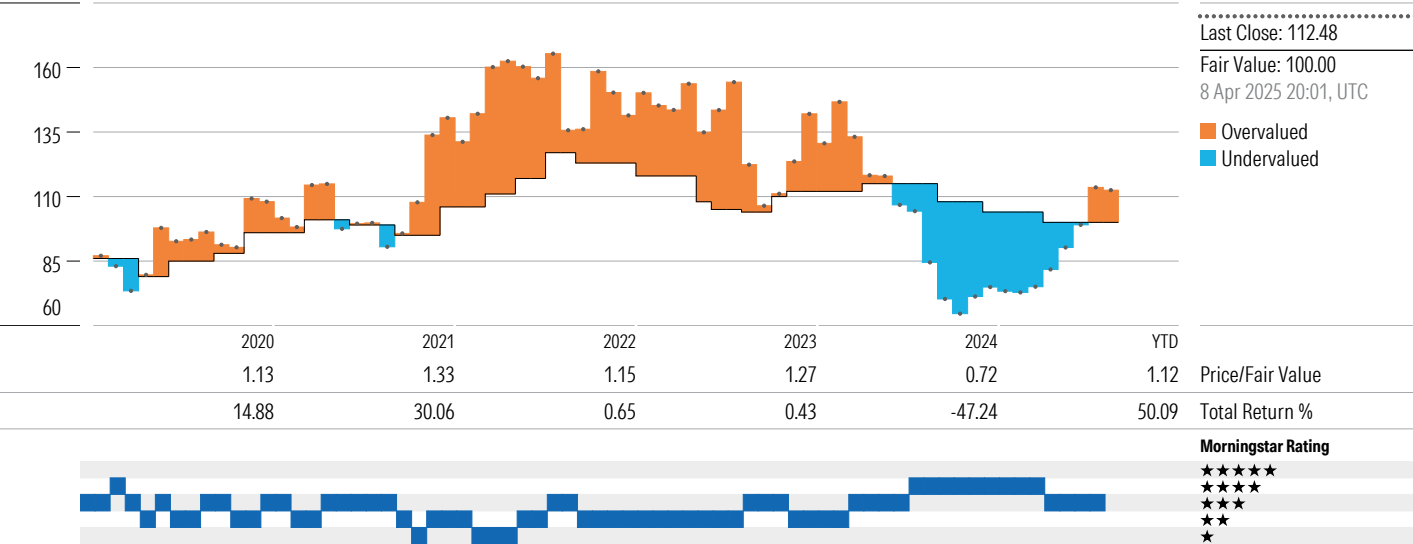
Noah Rohr, Equity Analyst, 5 Mar 2024

We were impressed by no-moat Target's robust margin recovery during its fiscal 2023 fourth quarter, though we are concerned by continued softness in the retailer's top-line results. The firm's 5.8% operating margin (210 basis points ahead of last year) easily outpaced our 4.4% estimate, driven by a nearly 300-basis-point expansion in gross margin to 25.6% as normalized inventory levels reduced the need for inordinate promotional destocking that was pervasive across the retail landscape last year. Due to this margin strength, Target posted \$2.98 in earnings per share, outpacing our \$2.11 forecast. The market looked favorably on Target's strong margin improvement and earnings beat with the stock trading more than 10% higher on March 5. While we plan to modestly raise our \$132 fair value estimate in light of Target's stronger-than-expected near-term margin recovery, we maintain our contention that the firm lacks a defensible competitive edge amid an intensely competitive retail landscape. Thus, we are keeping our 6.5% midcycle operating margin forecast intact. Management noted that it is striving to achieve a long-term operating margin of at least 6% (up from 5.3% in fiscal 2023), which, as we expected, is well below its 8% goal that was cited in early 2022. Furthermore, we caution investors from taking an overzealous view of the firm's fourth-quarter release due to continued top-line pressure. Target's 4.4% drop in comparable sales (transactions and ticket declined 1.7% and 2.8%, respectively) marks the third consecutive quarter of declines and is a stark contrast to wide-moat Walmart's 4% gain. While management expects comparable sales to recover modestly in fiscal 2024 (guidance was flat to up 2%), we think the top line is at risk of being further constrained in the near term—as value-conscious consumers may peruse the banners of lower-priced competitors—before returning to a low-single-digit percentage growth trajectory longer term. ■■

Target Corp TGT★★★★★ 19 Aug 2025 21:21, UTC

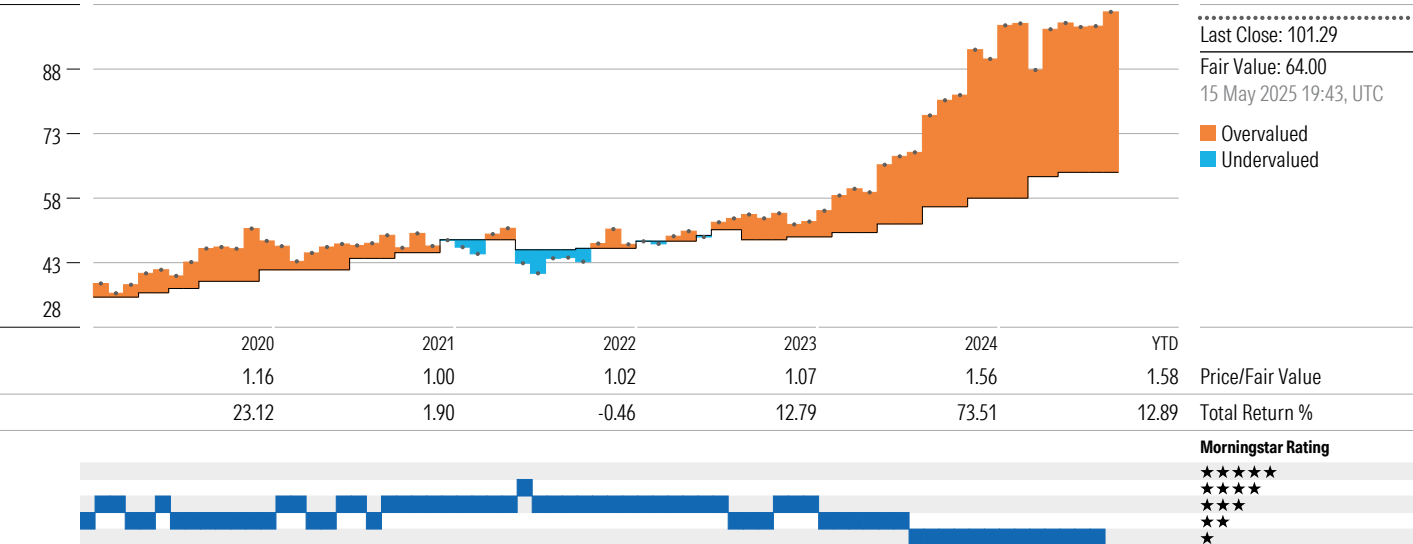
Competitors Price vs. Fair Value

Dollar Tree Inc DLTR



Total Return % as of 19 Aug 2025. Last Close as of 19 Aug 2025. Fair Value as of 8 Apr 2025 20:01, UTC.

Walmart Inc WMT



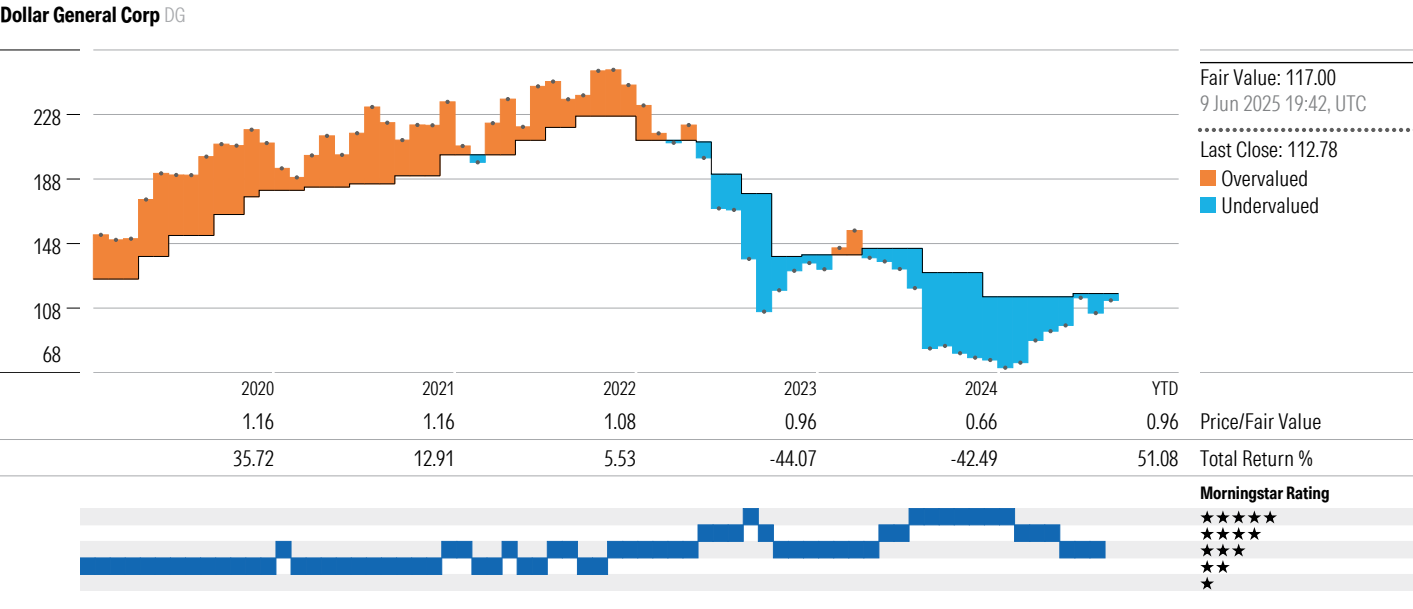
Total Return % as of 19 Aug 2025. Last Close as of 19 Aug 2025. Fair Value as of 15 May 2025 19:43, UTC.

Target Corp

TGT★★★★

19 Aug 2025 21:21, UTC

Competitors Price vs. Fair Value



Total Return % as of 19 Aug 2025. Last Close as of 19 Aug 2025. Fair Value as of 9 Jun 2025 19:42, UTC.

Target Corp TGT ★★★★★

19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	None	Mid Value	Medium	Exemplary	 4 Jun 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 22 May 2025

Fiscal Year, ends 31 Jan	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	109,120	107,412	106,566	103,655	105,711	108,831	111,896	116,335
Operating Income (USD Mil)	3,848	5,707	5,566	4,797	5,286	5,768	6,266	6,747
EBITDA (USD Mil)	6,548	8,508	8,547	8,396	8,351	8,924	9,511	10,121
Adjusted EBITDA (USD Mil)	6,548	8,508	8,547	7,803	8,351	8,924	9,511	10,121
Net Income (USD Mil)	2,780	4,138	4,091	3,889	3,794	4,167	4,552	4,929
Adjusted Net Income (USD Mil)	2,795	4,138	4,091	3,448	3,794	4,167	4,552	4,929
Free Cash Flow To The Firm (USD Mil)	-1,479	3,235	4,410	2,252	3,585	4,003	4,376	4,805
Weighted Average Diluted Shares Outstanding (Mil)	465	463	462	455	450	441	430	420
Earnings Per Share (Diluted) (USD)	5.98	8.94	8.86	8.54	8.44	9.46	10.58	11.72
Adjusted Earnings Per Share (Diluted) (USD)	6.02	8.94	8.86	7.58	8.44	9.46	10.58	11.72
Dividends Per Share (USD)	4.14	4.38	4.46	4.54	4.66	4.90	5.14	5.38

Margins & Returns as of 22 May 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2023	2024	2025	2026	2027	2028	2029	2030	
Operating Margin %	4.7	3.5	5.3	5.2	4.6	5.0	5.3	5.6	5.8	5.4
EBITDA Margin %	—	6.0	7.9	8.0	8.1	7.9	8.2	8.5	8.7	—
Adjusted EBITDA Margin %	—	6.0	7.9	8.0	7.5	7.9	8.2	8.5	8.7	8.2
Net Margin %	3.4	2.6	3.9	3.8	3.8	3.6	3.8	4.1	4.2	3.9
Adjusted Net Margin %	3.4	2.6	3.9	3.8	3.3	3.6	3.8	4.1	4.2	3.8
Free Cash Flow To The Firm Margin %	1.9	-1.4	3.0	4.1	2.2	3.4	3.7	3.9	4.1	3.5

Growth & Ratios as of 22 May 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2023	2024	2025	2026	2027	2028	2029	2030	
Revenue Growth %	0.2	2.9	-1.6	-0.8	-2.7	2.0	2.9	2.8	4.0	1.8
Operating Income Growth %	-14.6	-57.0	48.3	-2.5	-13.8	10.2	9.1	8.6	7.7	3.9
EBITDA Growth %	-4.4	-43.5	29.9	0.5	-1.8	-0.5	6.9	6.6	6.4	3.5
Adjusted EBITDA Growth %	-9.7	-43.5	29.9	0.5	-8.7	7.0	6.9	6.6	6.4	3.4
Earnings Per Share Growth %	-14.4	-57.6	49.5	-0.9	-3.6	-1.2	12.1	11.9	10.8	5.8
Adjusted Earnings Per Share Growth %	-14.4	-55.7	48.7	-0.9	-14.5	11.4	12.1	11.9	10.8	5.8

Valuation as of 22 May 2025

	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	28.6	15.6	15.6	13.9	12.5	11.1	10.0	9.0
Price/Sales	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4
Price/Book	7.1	4.8	4.3	3.0	2.8	2.7	2.5	2.3
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	14.9	9.6	9.3	8.2	7.7	7.2	6.7	6.3
EV/EBIT	25.3	14.2	14.2	13.3	12.1	11.1	10.2	9.5
Dividend Yield %	2.4	3.2	3.2	4.3	4.4	4.7	4.9	5.1
Dividend Payout %	68.8	49.0	50.3	59.9	55.2	51.8	48.6	45.9
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 22 May 2025

Fiscal Year, ends 31 Jan	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	5.2	7.5	7.1	6.8	6.5	7.0	7.5	7.9
ROE %	24.8	30.8	27.9	24.3	22.7	24.2	25.2	25.7
ROIC %	11.9	15.7	14.9	12.5	13.3	14.2	15.2	16.1

Target Corp TGT ★★★★★ 19 Aug 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
105.36 USD 19 Aug 2025	123.00 USD 23 May 2025 00:59, UTC	0.86	44.31 USD Bil 20 Aug 2025	None	Mid Value	Medium	Exemplary	 4 Jun 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Jan	2023	2024	2025	2026	2027	2028	2029	2030
Debt/Capital %	13.5	19.4	23.4	18.4	17.8	16.8	16.4	15.7
Assets/Equity	4.7	4.1	3.9	3.6	3.5	3.4	3.4	3.2
Net Debt/EBITDA	1.6	2.0	1.9	1.1	1.1	1.0	0.9	0.8
Total Debt/EBITDA	2.5	2.2	2.3	1.7	1.6	1.4	1.3	1.2
EBITDA/ Net Interest Expense	13.7	16.9	20.8	18.2	19.8	21.0	22.1	23.6

Forecast Revisions as of 29 May 2025	2026		2027		2028	
Prior data as of 22 May 2025	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	123.00	123.28	—	—	—	—
Revenue (USD Mil)	103,655	103,655	105,711	105,711	108,831	108,831
Operating Income (USD Mil)	4,797	4,797	5,286	5,286	5,768	5,768
EBITDA (USD Mil)	7,803	7,803	8,351	8,351	8,924	8,924
Net Income (USD Mil)	3,448	3,448	3,794	3,794	4,167	4,167
Earnings Per Share (Diluted) (USD)	8.54	8.54	8.44	8.44	9.46	9.46
Adjusted Earnings Per Share (Diluted) (USD)	7.58	7.58	8.44	8.44	9.46	9.46
Dividends Per Share (USD)	4.54	4.54	4.66	4.66	4.90	4.90

Key Valuation Drivers as of 22 May 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	7.9
Long-Run Tax Rate %	22.0
Stage II EBI Growth Rate %	2.5
Stage II Investment Rate %	15.0
Perpetuity Year	11

Additional estimates and scenarios available for download at <https://pitchbook.com/>.

Discounted Cash Flow Valuation as of 22 May 2025

	USD Mil
Present Value Stage I	28,666
Present Value Stage II	2,324
Present Value Stage III	35,385
Total Firm Value	66,374
Cash and Equivalents	4,762
Debt	15,940
Other Adjustments	-186
Equity Value	55,011
Projected Diluted Shares	453
Fair Value per Share (USD)	123.00

Target Corp TGT ★★★★★ 19 Aug 2025 21:21, UTC

Last Price 105.36 USD 19 Aug 2025	Fair Value Estimate 123.00 USD 23 May 2025 00:59, UTC	Price/FVE 0.86	Market Cap 44.31 USD Bil 20 Aug 2025	Economic Moat™ None	Equity Style Box Mid Value	Uncertainty Medium	Capital Allocation Exemplary	ESG Risk Rating Assessment¹ 4 Jun 2025 05:00, UTC
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ESG Risk Rating Breakdown

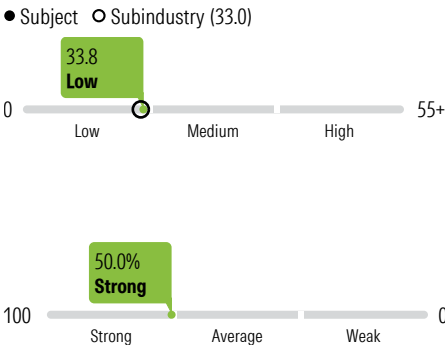
Exposure

Company Exposure¹	33.8
- Manageable Risk	31.0
Unmanageable Risk²	2.7

Management

Manageable Risk	31.0
- Managed Risk³	15.5
Management Gap⁴	15.5

Overall Unmanaged Risk 18.2



- ▶ Exposure represents a company's vulnerability to ESG risks driven by their business model
- ▶ Exposure is assessed at the Subindustry level and then specified at the company level
- ▶ Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure
- ▶ Management measures a company's ability to manage ESG risks through its commitments and actions
- ▶ Management assesses a company's efficiency on ESG programs, practices, and policies
- ▶ Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 50.0% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment⁵



ESG Risk Rating is of Jun 04, 2025. Highest Controversy Level is as of Aug 08, 2025. Sustainability Subindustry: Department Stores. Sustainability provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainability scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 04 Jun 2025

Company Name	Exposure	Management	ESG Risk Rating
Target Corp	33.8 Low 0 —●— 55+	50.0 Strong 100 —●— 0	18.2 Low 0 —●— 40+
Ross Stores Inc	29.5 Low 0 —●— 55+	36.2 Average 100 —●— 0	20.0 Low 0 —●— 40+
Walmart Inc	45.4 Medium 0 —●— 55+	48.1 Average 100 —●— 0	25.2 Medium 0 —●— 40+
Dollar General Corp	33.6 Low 0 —●— 55+	40.0 Average 100 —●— 0	21.2 Medium 0 —●— 40+
Dollar Tree Inc	35.9 Medium 0 —●— 55+	55.1 Strong 100 —●— 0	17.7 Low 0 —●— 40+

Appendix

Historical Morningstar Rating

Target Corp TGT 19 Aug 2025 21:21, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 ★★★★	Jul 2025 ★★★★	Jun 2025 ★★★★	May 2025 ★★★★	Apr 2025 ★★★★★	Mar 2025 ★★★★	Feb 2025 ★★★	Jan 2025 ★★★
Dec 2024 ★★★	Nov 2024 ★★★	Oct 2024 ★★★	Sep 2024 ★★★	Aug 2024 ★★	Jul 2024 ★★	Jun 2024 ★★★	May 2024 ★★	Apr 2024 ★★	Mar 2024 ★★	Feb 2024 ★★	Jan 2024 ★★★
Dec 2023 ★★★	Nov 2023 ★★★	Oct 2023 ★★★★	Sep 2023 ★★★★	Aug 2023 ★★★	Jul 2023 ★★★★	Jun 2023 ★★★★	May 2023 ★★★★	Apr 2023 ★★★★	Mar 2023 ★★★★	Feb 2023 ★★★★	Jan 2023 ★★★★
Dec 2022 ★★★★	Nov 2022 ★★★★	Oct 2022 ★★★	Sep 2022 ★★★★	Aug 2022 ★★★	Jul 2022 ★★★	Jun 2022 ★★★★	May 2022 ★★★★	Apr 2022 ★★	Mar 2022 ★★	Feb 2022 ★★	Jan 2022 ★★
Dec 2021 ★★	Nov 2021 ★	Oct 2021 ★	Sep 2021 ★	Aug 2021 ★	Jul 2021 ★	Jun 2021 ★	May 2021 ★	Apr 2021 ★	Mar 2021 ★	Feb 2021 ★	Jan 2021 ★
Dec 2020 ★	Nov 2020 ★	Oct 2020 ★	Sep 2020 ★	Aug 2020 ★	Jul 2020 ★★	Jun 2020 ★★	May 2020 ★★	Apr 2020 ★★	Mar 2020 ★★★★	Feb 2020 ★★★★	Jan 2020 ★★

Dollar Tree Inc DLTR 19 Aug 2025 21:24, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 ★★★★	Jul 2025 ★★★★	Jun 2025 ★★★★	May 2025 ★★★★	Apr 2025 ★★★★★	Mar 2025 ★★★★★	Feb 2025 ★★★★★	Jan 2025 ★★★★★
Dec 2024 ★★★★	Nov 2024 ★★★★	Oct 2024 ★★★★	Sep 2024 ★★★★	Aug 2024 ★★★★	Jul 2024 ★★★★	Jun 2024 ★★★★	May 2024 ★★★★	Apr 2024 ★★★★	Mar 2024 ★★	Feb 2024 ★★	Jan 2024 ★★
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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a

long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



Research Methodology for Valuing Companies

outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Margin of Safety		
Qualitative Analysis	★★★★★ Rating	★ Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

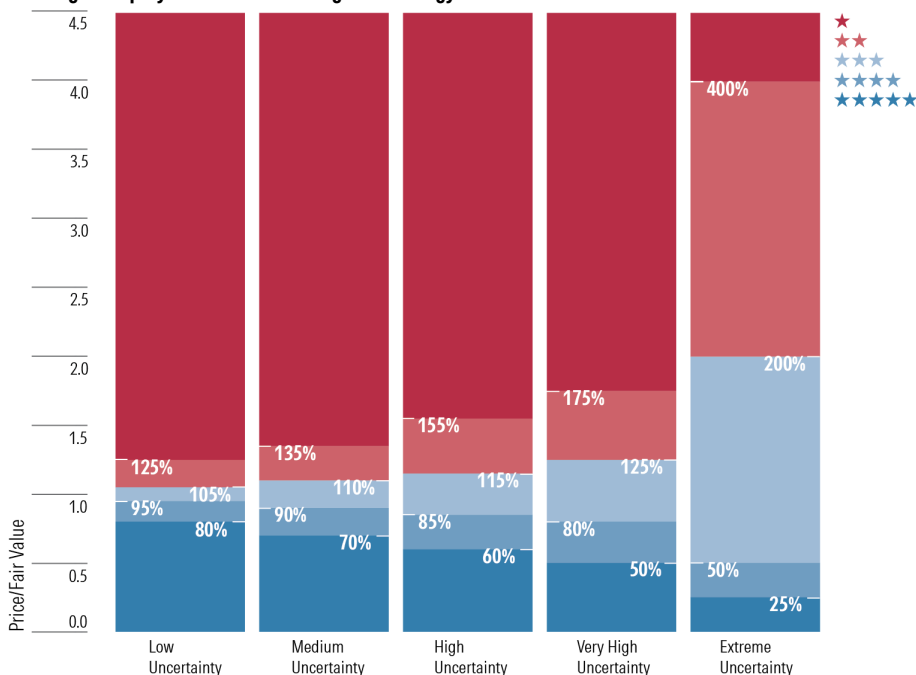
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to <https://shareholders.morningstar.com>

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

Research Methodology for Valuing Companies

and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score.

Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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