

# ***Target Fundamental Pitch***

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**Investment decision:** *Buy \$5K of Target (TGT), for a one-year investment horizon.*

## **Introduction:**

Our investing thesis included a one-year buy of \$5k across ~43 shares of Target Corp. Target is a national merchandise retailer focused on a D2C model, and products include apparel, home goods, beauty, essentials, and groceries. Its competitive strategy includes its differentiation on exclusive brands and partnerships, loyalty ecosystem, and focus on omnichannel convenience.

Target is an attractive buy because it is currently undervalued and is undergoing a strategic transformation that is being driven by heavy investment into AI and technology, new leadership, revenue diversification, and making efficiency gains in operations. These strategic shifts are currently underway, and we believe Target will see positive impacts in the next few earning periods. We pitch that this strategy should be a one-year investment horizon to capture the upside that will come through these strategic fundamental shifts as well as benefit from the macro trend of investors moving toward investments in consumer staples.

## **Valuation:**

We valued Target Corporation using a DCF supported by trading comparables and precedent transactions. Our WACC was based on a capital structure of 26.9% debt and 73.1% equity, with an after-tax cost of debt of 1.6% and a cost of equity of 11.9%, reflecting a 3.5% risk-free rate, 11.3% market risk premium, and a 0.74 levered beta based on 1-year monthly data. Revenue is projected to decline 2.8% in fiscal 2026 before recovering through 2030 due to improvements in e-commerce, diversification, and operational efficiency. EBITDA margins remain stable, while EBIT temporarily fluctuates before improving after 2028. Working capital assumptions reflect stable receivables, rising inventories with revenue, and moderating capital expenditures following a near-term investment cycle.

Our scenario analysis produced implied share prices of \$159.69 (base), \$122.30 (downside), and \$170.17 (upside), using a conservative 2.3% terminal growth rate. Precedent transactions imply a mean EV/Revenue multiple of 1.64x, and public comps show Target trading below peers on EV/Sales, EV/EBITDA, and P/E, indicating relative

undervaluation. We weighted our valuation 70% DCF, 25% comparables, and 5% precedents, resulting in a blended target price of \$188.45 versus the current price of \$116.69, suggesting meaningful upside potential.

### **Fundamental Analysis**

Target Corporation operates in a highly competitive retail environment shaped by rising price sensitivity, growth in private-label offerings, and intense competition from larger players like Amazon and Walmart. While Target's U.S.-focused footprint limits its scale and volume relative to these rivals, it remains one of the strongest retail brands due to its owned brands, loyalty ecosystem, differentiated customer experience, and investments in AI-driven merchandising. Competitive risks stem from pricing pressure, geographic concentration, and lower purchasing power versus competitors. Industry dynamics reflect high rivalry and substitute threats, with moderate threats from buyers and suppliers and low risk of new entrants due to scale and capital requirements.

Leadership continuity supports strategic execution, with long-time executive Michael Fiddelke recently promoted to CEO after more than 20 years at the company, most recently as COO. Target's core strengths include brand recognition and a broad product mix, while weaknesses center on heavy exposure to the U.S. market and the availability of substitutes. Growth opportunities lie in expanding its private-label portfolio and optimizing smaller-format stores, while key threats include sustained pricing pressure, political and consumer polarization, and elevated retail crime.

### **Final Recommendation**

We recommend a \$5,000 buy to Target in the Milner fund with a target price of \$188.45 due to its strategic fundamental transformation, current undervalued share price, and high one-year upside horizon.