

that the cost of goods sold information would be 75% of revenues and 25% of net operating revenues. In addition, the amount of capital investment would be 10% of annual revenues. At the end of the life of the equipment, the net working capital would be recoverable, whereas only 10% or \$1.8 million would be recoverable. Taxes would be paid at a 40% rate, and depreciation was calculated on a straight-line basis.

Worldwide Paper Financial Data

Year	Revenue	Net Operating Revenue	Capital Investment	Depreciation	Taxes
2006	100.00	75.00	10.00	20.00	8.00
2007	100.00	75.00	10.00	20.00	8.00
2008	100.00	75.00	10.00	20.00	8.00
2009	100.00	75.00	10.00	20.00	8.00
2010	100.00	75.00	10.00	20.00	8.00
2011	100.00	75.00	10.00	20.00	8.00
2012	100.00	75.00	10.00	20.00	8.00
2013	100.00	75.00	10.00	20.00	8.00
2014	100.00	75.00	10.00	20.00	8.00
2015	100.00	75.00	10.00	20.00	8.00
2016	100.00	75.00	10.00	20.00	8.00
2017	100.00	75.00	10.00	20.00	8.00
2018	100.00	75.00	10.00	20.00	8.00
2019	100.00	75.00	10.00	20.00	8.00
2020	100.00	75.00	10.00	20.00	8.00

Target Corporation

On November 14, 2006, Doug Scovanner, CFO of Target Corporation, was preparing for the November meeting of the Capital Expenditure Committee (CEC). Scovanner was one of five executive officers who were members of the CEC (Exhibit 1). On tap for the 8:00 a.m. meeting the next morning were 10 projects representing nearly \$300 million in capital-expenditure requests. With the fiscal year's end approaching in January, there was a need to determine which projects best fit Target's future store growth and capital-expenditure plans, with the knowledge that those plans would be shared early in 2007, with both the board and investment community. In reviewing the 10 projects coming before the committee, it was clear to Scovanner that five of the projects, representing about \$200 million in requested capital, would demand the greater part of the committee's attention and discussion time during the meeting.

The CEC was keenly aware that Target had been a strong performing company in part because of its successful investment decisions and continued growth. Moreover, Target management was committed to continuing the company's growth strategy of opening approximately 100 new stores a year. Each investment decision would have long-term implications for Target: an underperforming store would be a drag on earnings and difficult to turn around without significant investments of time and money, whereas a top-performing store would add value both financially and strategically for years to come.

Retail Industry

The retail industry included a myriad of different companies offering similar product lines (Exhibit 2). For example, Sears and JCPenney had extensive networks of stores that offered a broad line of products, many of which were similar to Target's product lines. Because each retailer had a different strategy and a different customer base, truly comparable stores were difficult to identify. Many investment analysts, however, focused on Wal-Mart and Costco as important competitors for Target, although for

This case was prepared by David Ding (MBA '08) and Saul Yeaton (MBA '08), under the supervision of Kenneth Eades, Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2008 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.

different reasons. Wal-Mart operated store formats similar to Target, and most Target stores operated in trade areas where one or more Wal-Mart stores were located. Wal-Mart and Target also carried merchandising assortments, which overlapped on many of the same items in such areas as food, commodities, electronics, toys, and sporting goods, etc.

Costco, on the other hand, attracted a customer base that overlapped closely with Target's core customers, but there was less often overlap between Costco and Target with respect to trade area and merchandising assortment. Costco also differed from Target in that it used a membership-fee format.¹ Most of the sales of these companies were in the broad categories of general merchandise and food. General merchandise included electronics, entertainment, sporting goods, toys, apparel, accessories, home furnishing, and décor, and food items included consumables ranging from apples to zucchini.

Wal-Mart had become the dominant player in the industry with operations located in the United States, Argentina, Brazil, Canada, Puerto Rico, United Kingdom, Central America, Japan, and Mexico. Much of Wal-Mart's success was attributed to its "every-day low price" pricing strategy that was greeted with delight by consumers but created severe challenges for local independent retailers who needed to remain competitive. Wal-Mart sales had reached \$309 billion for 2005 for 6,141 stores and a market capitalization of \$200 billion, compared with sales of \$178 billion and 4,189 stores in 2000. In addition to growing its top line, Wal-Mart had been successful in creating efficiency within the company and branching into product lines that offered higher margins than many of its commodity type of products.

Costco provided discount pricing for its members in exchange for membership fees. For fiscal 2005, these fees comprised 2.0% of total revenue and 72.8% of operating income. Membership fees were such an important factor to Costco that an equity analyst had coined a new price-to-membership-fee-income ratio metric for valuing the company.² By 2005, Costco's sales had grown to \$52.9 billion across its 433 warehouses, and its market capitalization had reached \$21.8 billion. Over the previous five years, sales excluding membership fees had experienced compound growth of 10.4%, while membership fees had grown 14.6% making the fees a significant growth source and highly significant to operating income in a low-profit-margin business.

In order to attract shoppers, retailers tailored their product offerings, pricing, and branding to specific customer segments. Segmentation of the customer population had led to a variety of different strategies, ranging from price competition in Wal-Mart stores to Target's strategy of appealing to style-conscious consumers by offering unique assortments of home and apparel items, while also pricing competitively with Wal-Mart on items common to both stores. The intensity of competition among retailers had resulted in razor-thin margins making every line item on the income statement an important consideration for all retailers.

¹Sam's Club, which was owned by Wal-Mart, also employed a membership-fee format and represented 13% of Wal-Mart revenues.

²"Costco Wholesale Corp. Initiation Report" by Wachovia Capital Markets, September 18, 2006.

The effects of tight margins were felt throughout the supply chain as retailers constantly pressured their suppliers to accept lower prices. In addition, retailers used off-shore sources as low-cost substitutes for their products and implemented methods such as just-in-time inventory management, low-cost distribution networks, and high sales per square foot to achieve operational efficiency. Retailers had found that profit margins could also be enhanced by selling their own brands, or products with exclusive labels that could be marketed to attract the more affluent customers in search of a unique shopping experience.

Sales growth for retail companies stemmed from two main sources: creation of new stores and organic growth through existing stores. New stores were expensive to build, but were needed to access new markets and tap into a new pool of consumers that could potentially represent high profit potential depending upon the competitive landscape. Increasing the sales of existing stores was also an important source of growth and value. If an existing store was operating profitably, it could be considered for renovation or upgrading in order to increase sales volume. Or, if a store was not profitable, management would consider it a candidate for closure.

Target Corporation

The Dayton Company opened the doors of the first Target store in 1962, in Roseville, Minnesota. The Target name had intentionally been chosen to differentiate the new discount retailer from the Dayton Company's more upscale stores. The Target concept flourished. In 1995, the first SuperTarget store opened in Omaha, Nebraska, and in 1999, the Target.com Web site was launched. By 2000, the parent company, Dayton Hudson, officially changed its name to Target Corporation.³

By 2005, Target had become a major retailing powerhouse with \$52.6 billion in revenues from 1,397 stores in 47 states (Exhibits 3 and 4). With sales of \$30 billion in 2000, the company had realized a 12.1% sales growth over the past five years and had announced plans to continue its growth by opening approximately 100 stores per year in the United States in the foreseeable future. While Target Corporation had never committed to expanding internationally, analysts had been speculating that domestic growth alone would not be enough to sustain its historic success. If Target continued its domestic growth strategy, most analysts expected capital expenditures would continue at a level of 6%–7% of revenues, which equated to about \$3.5 billion for fiscal 2006.

In contrast with Wal-Mart's focus on low prices, Target's strategy was to consider the customer's shopping experience as a whole. Target referred to its customers as guests and consistently strived to support the slogan, "Expect more. Pay less." Target focused on creating a shopping experience that appealed to the profile of its "core guest": a college-educated woman with children at home who was more affluent than

³The Dayton Company merged with J. L. Hudson Company in 1969. After changing its name to Target, the company renamed the Dayton-Hudson stores as Marshall Field's. In 2004, Marshall Field's was sold to May Department Stores, which was acquired by Federated Department Stores in 2006; all May stores were given the Macy's name that same year.

the typical Wal-Mart customer. This shopping experience was created by emphasizing a store décor that gave just the right shopping ambience. The company had been highly successful at promoting its brand awareness with large advertising campaigns; its advertising expenses for fiscal 2005 were \$1.0 billion or about 2.0% of sales and 26.6% of operating profit. In comparison, Wal-Mart's advertising dollars amounted to 0.5% of sales and 9.2% of operating income. Consistent advertising spending resulted in the Target bull's-eye logo's (**Exhibit 5**) being ranked among the most recognized corporate logos in the United States, ahead of the Nike "swoosh."

As an additional enhancement to the customer shopping experience, Target offered credit to qualified customers through its REDcards: Target Visa Credit Card and Target Credit Card. The credit-card business accounted for 14.9% of Target's operating earnings and was designed to be integrated with the company's overall strategy by focusing only on customers who visited Target stores.

Capital-Expenditure Approval Process

The Capital Expenditure Committee was composed of a team of top executives that met monthly to review all capital project requests (CPRs) in excess of \$100,000. CPRs were either approved by the CEC, or in the case of projects larger than \$50 million, required approval from the board of directors. Project proposals varied widely and included remodeling, relocating, rebuilding, and closing an existing store to building a new store.⁴ A typical CEC meeting involved the review of 10 to 15 CPRs. All of the proposals were considered economically attractive, as any CPRs with questionable economics were normally rejected at the lower levels of review. In the rare instance when a project with a negative net present value (NPV) reached the CEC, the committee was asked to consider the project in light of its strategic importance to the company.

CEC meetings lasted several hours as each of the projects received careful scrutiny by the committee members. The process purposefully was designed to be rigorous because the CEC recognized that capital investment could have significant impact on the short-term and long-term profitability of the company. In addition to the large amount of capital at stake, approvals and denials also had the potential to set precedents that would affect future decisions. For example, the committee might choose to reject a remodeling proposal for a store with a positive NPV, if the investment amount requested was much higher than normal and therefore might create a troublesome precedent for all subsequent remodel requests for similar stores. Despite how much the projects differed, the committee was normally able to reach a consensus decision for the vast majority of them. Occasionally however, a project led to such a high degree of disagreement within the committee that the CEO made the final call.

Projects typically required 12 to 24 months of development prior to being forwarded to the CEC for consideration. In the case of new store proposals, which represented the majority of the CPRs, a real-estate manager assigned to that geographic

⁴Target expected to allocate 65% of capital expenditures to new stores, 12% to remodels and expansions, and 28% to information technology, distribution, etc.

region was responsible for the proposal from inception to completion and also for reviewing and presenting the proposal details. The pre-CPR work required a certain amount of expenditures that were not recoverable if the project were ultimately rejected by CEC. More important than these expenditures, however, were the "emotional sunk costs" for the real-estate managers who believed strongly in the merits of their proposals and felt significant disappointment if any project was not approved.

The committee considered several factors in determining whether to accept or reject a project. An overarching objective was to meet the corporate goal of adding about 100 stores a year while maintaining a positive brand image. Projects also needed to meet a variety of financial objectives, starting with providing a suitable financial return as measured by discounted cash-flow metrics: NPV and IRR (internal rate of return). Other financial considerations included projected profit and earnings per share impacts, total investment size, impact on sales of other nearby Target stores, and sensitivity of NPV and IRR to sales variations. Projected sales were determined based on economic trends and demographic shifts but also considered the risks involved with the entrance of new competitors and competition from online retailers. And lastly, the committee attempted to keep the project approvals within the capital budget for the year. If projects were approved in excess of the budgeted amount, Target would likely need to borrow money to fund the shortfall. Adding debt unexpectedly to the balance sheet could raise questions from equity analysts as to the increased risk to the shareholders as well as to the ability of management to accurately project the company's funding needs.

Other considerations included tax and real-estate incentives provided by local communities as well as area demographics. Target typically purchased the properties where it built stores, although leasing was considered on occasion. Population growth and affluent communities were attractive to Target, but these factors also invited competition from other retailers. In some cases, new Target stores were strategically located to block other retailers despite marginal short-term returns.

When deciding whether to open a new store, the CEC was often asked to consider alternative store formats. For example, the most widely used format was the 2004 version of a Target store prototype called P04, which occupied 125,000 square feet, whereas a SuperTarget format occupied an additional 50,000 square feet to accommodate a full grocery assortment. The desirability of one format over another often centered on whether a store was expected to eventually be upgraded. Smaller stores often offered a higher NPV; but the NPV estimate did not consider the effect of future upgrades or expansions that would be required if the surrounding communities grew, nor the advantage of opening a larger store in an area where it could serve the purpose of blocking competitors from opening stores nearby.

The committee members were provided with a capital-project request "dashboard" for each project that summarized the critical inputs and assumptions used for the NPV and IRR calculations. The template represented the summary sheet for an elaborate discounted cash flow model. For example, the analysis of a new store included incremental cash flow projections for 60 years over which time the model included a remodeling of the store every 10 years. **Exhibit 6** provides an example of a dashboard with a detailed explanation of the "Store Sensitivities" section. The example dashboard

shows that incremental sales estimates were computed as the total sales expected for the new store less the sales cannibalized from Target stores already located in the general vicinity. The resulting NPV and IRR metrics were divided between value created by store sales and credit-card activity. NPV calculations used a 9.0% discount rate for cash flows related to the store cash flows and a 4.0% discount rate for credit-card cash flows. The different discount rates were chosen to represent the different costs of capital for funding store operations versus funding credit-card receivables.

The dashboards also presented a variety of demographic information, investment-cost details and sensitivity analyses. An important sensitivity feature was the comparison of the project's NPV and IRR to the "prototype" NPV and IRR. These sensitivity calculations answered the question of how much a certain cost or revenue item needed to change in order for the project to achieve the same NPV or IRR that would be experienced for the typical P04 or SuperTarget store.

The November Meeting

Of the 10 projects under consideration for the November CEC meeting, Doug Scovanner recognized that five would be easily accepted, but that the remaining five CPRs were likely to be difficult choices for the committee. These projects included four new store openings (Gopher Place, Whalen Court, The Barn, and Goldie's Square) and one remodeling of an existing store into a SuperTarget format (Stadium Remodel). **Exhibit 7** contains a summary of the five projects, and **Exhibit 8** contains the CPR dashboards for the individual projects.

As was normally the case, all five of the CPRs had positive NPVs, but Scovanner wondered if the projected NPVs were high enough to justify the required investment. Further, with stiff competition from other large retailers looking to get footholds in major growth areas, how much consideration should be given to short-term versus long-term sales opportunities? For example, Whalen Court represented a massive investment with relatively uncertain sales returns. Should Scovanner take the stance that the CEC should worry less about Whalen Court's uncertain sales and focus more on the project as a means to increase Target's brand awareness in an area with dense foot traffic and high-fashion appeal? Goldie's Square represented a more typical investment level of \$24 million for a SuperTarget. The NPV, however, was small at \$317,000, well below the expected NPV of a SuperTarget prototype, and would be negative without the value contribution of credit-card sales.

As CFO, Scovanner was also aware that Target shareholders had experienced a lackluster year in 2006, given that Target's stock price had remained essentially flat (**Exhibit 9**). Stock analysts were generally pleased with Target's stated growth policy and were looking for decisions from management regarding investments that were consistent with the company maintaining its growth trajectory. In that regard, Scovanner recognized that each of the projects represented a growth opportunity for Target. The question, however, was whether capital was better spent on one project or another to create the most value and the most growth for Target shareholders. Thus, Scovanner felt that he needed to rank the five projects in order to be able to recommend which ones to keep and which ones to reject during the CEC meeting the next day.

EXHIBIT 1 | Executive Officers and Capital Expenditure Committee Members

Timothy R. Baer	Executive Vice President, General Counsel, and Corporate Secretary	
Michael R. Francis	Executive Vice President, Marketing	
John D. Griffith	Executive Vice President, Property Development	CEC
Jodeen A. Kozlak	Executive Vice President, Human Resources	
Troy H. Risch	Executive Vice President, Stores	CEC
Janet M. Schalk	Executive Vice President, Technology Services and Chief Information Officer	
Douglas A. Scovanner	Executive Vice President and Chief Financial Officer	CEC
Terrence J. Scully	President, Target Financial Services	
Gregg W. Steinhafel	President	CEC
Robert J. Ulrich	Chairman and Chief Executive Officer	CEC

Chairman and CEO **Bob Ulrich**, 62. Ulrich began his career at Dayton-Hudson as a merchandising trainee in 1967. He advanced to the position of CEO of Target Stores in 1987 and to the position of Dayton-Hudson's CEO in 1994.

EVP and CFO **Doug Scovanner**, 49. Scovanner was named Target CFO in February 2000 after previously serving as CFO of Dayton-Hudson.

President of Target Stores **Gregg Steinhafel**, 50. Steinhafel began his career at Target as a merchandising trainee in 1979. He was named president in 1999.

EVP of Stores **Troy Risch**, 37. Risch was promoted to EVP in September 2006.

EVP of Property Development **John Griffith**, 44. Griffith was promoted to EVP in February 2005 from the position of senior vice president of Property Development he had held since February 2000.

Source: Target Corp.

EXHIBIT 2 | Retail Company Financial Information

	Revenue (\$ billions)	Basic EPS	Debt (\$ billions)	Debt Rating (S&P)	Beta	Fiscal Year Ended	Market Capitalization as of Oct 31, 2006 (\$ billions)
Bed Bath & Beyond Inc.	\$5.8	\$1.95	\$0.0	BBB	1.05	Feb-06	\$11.4
Best Buy Co., Inc.	\$30.8	\$2.33	\$0.6	BBB	1.25	Feb-06	\$26.2
Costco Wholesale Corp.	\$52.9	\$2.24	\$0.8	A	0.85	Aug-05	\$24.1
Dick's Sporting Goods, Inc.	\$2.6	\$1.47	\$0.2	Not Rated	1.15	Jan-06	\$1.3
JCPenney Company, Inc.	\$18.8	\$4.30	\$3.5	BB+	1.05	Jan-06	\$16.6
Kohl's Corporation	\$13.4	\$2.45	\$1.2	BBB	0.90	Jan-06	\$23.1
Sears Holdings Corporation	\$49.1	\$5.63	\$4.0	BB+	NMF	Jan-06	\$26.9
Wal-Mart Stores, Inc.	\$315.7	\$2.68	\$38.8	AA	0.80	Jan-06	\$199.9
Target Corporation	\$52.6	\$2.73	\$9.9	A+	1.05	Jan-06	\$50.1

Data Source: Yahoo! Finance (www.finance.yahoo.com [accessed 24 October 2008]) and Value Line Investment Survey.

EXHIBIT 3 | Target Income Statements (\$ millions)

Fiscal Year Ending	28 Jan 2006	29 Jan 2005
Net revenues	52,620	46,839
Cost of goods sold	34,927	31,445
Depreciation, depletion, and amortization	1,409	1,259
Gross income	16,284	14,135
Selling, general, and, admin expenses	11,961	10,534
Earnings before interest and taxes (EBIT)	4,323	3,601
Net interest expense	463	570
Pretax income	3,860	3,031
Income taxes	1,452	1,146
Net income before extra items	2,408	1,885
Gain (loss) sale of assets		1,313
Net income after extra items	2,408	3,198
Capital expenditures (net of disposals)	3,330	3,012
Capital expenditures/sales	6.3%	6.4%

Source: Target Corp. Annual Reports.

EXHIBIT 4 | Balance Sheet Statements (\$ millions)

Fiscal Year Ending	28 Jan 2006	29 Jan 2005	31 Jan 2004
Assets			
Cash and cash equivalents	1,648	2,245	708
Accounts receivable (net)	5,666	5,069	4,621
Inventory	5,838	5,384	4,531
Other current assets	1,253	1,224	3,092
Total current assets	14,405	13,922	12,952
Property plant and equipment, net	19,038	16,860	15,153
Other assets	1,552	1,511	3,311
Total assets	34,995	32,293	31,416
Liabilities			
Accounts payable	6,268	5,779	4,956
Current portion of LT debt and notes payable	753	504	863
Income taxes payable	374	304	382
Other current liabilities	2,193	1,633	2,113
Total current liabilities	9,588	8,220	8,314
Long-term debt	9,119	9,034	10,155
Other liabilities	2,083	2,010	1,815
Total liabilities	20,790	19,264	20,284
Shareholders' equity			
Common equity	2,192	1,881	1,609
Retained earnings	12,013	11,148	9,523
Total liabilities and shareholders' equity	34,995	32,293	31,416

Source: Target Corp. Annual Reports.

EXHIBIT 5 | Target Logo



Source: Target Corp.

EXHIBIT 6 | Example of a Capital Project Request Dashboard



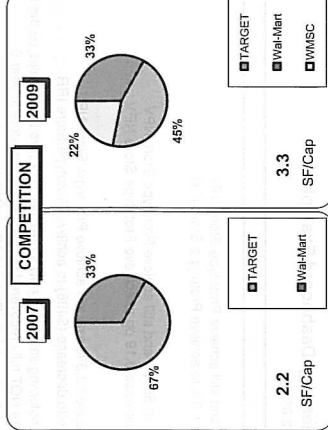
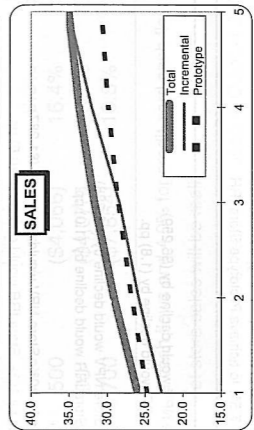
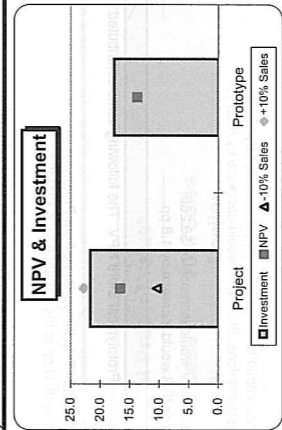
CAPITAL PROJECT REQUEST
Capital Expenditure Committee:

FINANCIAL SUMMARY		Project	B/(P) Proto
TOTAL R&P SALES			
1st year 2006 Equivalent	\$27,000	\$2,588	
5th year 2006 Equivalent	\$34,155	\$3,279	
Sales maturity	1.27	0.00	
INCREMENTAL R&P SALES			
1st year 2006 Equivalent	\$23,000	(\$1,412)	
5th year 2006 Equivalent	\$34,155	\$3,279	
Sales maturity	1.49	0.22	
INVESTMENT			
Land	\$3,802	(\$202)	
Stiework	3,804	(812)	
Subtotal	\$7,606	(\$1,014)	
Building	12,786	(2,736)	
Other	1,295	(53)	
Total Net Investment	\$21,667	(\$3,804)	
VALUE			
IRR	12.8%	\$12,860	\$1,860
Store		\$3,767	\$322
Credit	10.2%	\$16,626	\$2,182
TOTAL			
IRR			
NPV	(3.0%)	1.0%	
Gross Margin	(0.55)	0.19	
Construction (Building & Stiework)	\$2,398	(\$498)	
Full Transfer Impact	4.0%	7.5%	
RISK/OPPORTUNITY			
10% sales decline	(\$6,259)	(1.8)	
1 pp GM decline	(\$3,388)	(1.0)	
10% Const. cost increase	(\$1,287)	(0.6)	
Market margin, wage rate, etc.	(\$603)	(0.2)	
10% sales increase	\$6,269	1.8	
VARIANCE TO PROTOTYPE			
Land	(\$219)	(0.1)	
Non-Land Investment	(\$2,660)	(1.5)	
Sales	\$4,818	1.4	
Real Estate Tax	(\$79)	0.0	
P&L SUMMARY			
EBIT IMPACT		Project	B/(P) Proto
Thru Open Yr	(\$1,060)	(\$117)	
5th Yr	\$4,066	\$455	

Sensitivities Key - Dashboard Example

Project: St. Louis
Market: P04
Prototype: P04
Developer: NA
Address: NA
Anchors: NA

Open: Size: 126,842
Own/Lease: Own



INVESTMENT DETAIL		Project	B/(P) Proto
Land	11.00	\$222	(68)
Acres:	\$7.93	\$71	N/A
PSP:			
Closing:	10/2007		
Options	None		
BUILDING COST VS. PROTOTYPE			
Subgeographic			\$0
Proto Update			0
Market Conditions			0
Government Fees			0
Architectural			0
Technical			0
Procurement			0
A/E Fees			0
Signs			0
Contingency			0
Total Variance			\$0
INCENTIVE SUMMARY			
None Available		Vendor Fee	\$0
		Legal Fee	\$0
DEMOGRAPHICS			
Characteristics	MSA	Trade Area	3-Mile Radius
2005 Population (000's)	0	0	0
2000-2005 Growth	0.0%	0.0%	0.0%
Median HH Income	\$0	\$0	\$0
# HH +\$50,000 (0000's)	0	0	0
% Adults 4+ Yrs. College, 2005	0%	0%	0%
COMMENTS			

WMSC = Wal-Mart Super Center

Dashboard Sensitivities Key (use with "Sensitivities Key-Dashboard Example")

Dashboard Example: P04; Store NPV: \$12,860; Store IRR: 12.8%

HURDLE ADJUSTMENT (CPR Dashboard)

Sales
 NPV (3.0%) Sales could decrease (3.0%) and still achieve Prototype Store NPV
 IRR 1.0% Sales would have to increase 1.0% to achieve Prototype Store IRR

Gross Margin
 NPV (0.55) Gross Margin could decrease (0.55) pp and still achieve Prototype Store NPV
 IRR 0.19 Gross Margin would have to increase 0.19 pp to achieve Prototype Store IRR

Construction (Building & Sitemwork)

NPV \$2,398 Construction costs could increase \$2,398 and still achieve Prototype Store NPV
 IRR (\$498) Construction costs would have to decrease (\$498) to achieve Prototype Store IRR

Full Transfer Impact
 Prototype Assumption: A nearby store transferring sales to a new store, fully recovers these sales by the 5th yr.

Sensitivity Assumption: If transfer sales are NOT fully recovered by the transferring store in year 5:
 NPV 4.0% Sales would have to increase 4.0% to achieve Prototype Store NPV
 IRR 7.5% Sales would have to increase 7.5% to achieve Prototype Store IRR

RISK/OPPORTUNITY

10% Sales Decline
 NPV (\$6,259) If sales decline by 10%, Store NPV would decline by (\$6,259).
 IRR (1.8) If sales decline by 10%, Store IRR would decline by (1.8) pp.

1 pp GM Decline

NPV (\$3,388) If margin decreased by 1 pp, Store NPV would decline by (\$3,388).
 IRR (1.0) If margin decreased by 1 pp, Store IRR would decline by (1.0) pp.

10% Construction Cost Increase

NPV (\$1,287) If construction costs increased by 10%, Store NPV would decline by (\$1,287).
 IRR (0.6) If construction costs increased by 10%, Store IRR would decline by (0.6) pp.

Market Margin, Wage Rate, etc.

NPV (\$603) If we applied market specific assumptions, Store NPV would decrease by (\$603).
 IRR (0.2) If we applied market specific assumptions, Store IRR would decrease by (0.2) pp.

10% Sales Increase

NPV \$6,269 If sales increased by 10%, Store NPV would increase by \$6,269.
 IRR 1.8 If sales increased by 10%, Store IRR would increase by 1.8 pp.

VARIANCE TO PROTOTYPE

The example dashboard with a Store NPV of \$12,860 is \$1,860K above Prototypical Store NPV. The following items contributed to the variance:

Land
 NPV (\$219) Land cost contributed a negative (\$219) to the variance from Prototype.
 IRR (0.1) Land cost contributed a negative (0.1) pp to the variance from Prototype.

Non-Land Investment
 NPV (\$2,660) Building/Sitemwork costs contributed a negative (\$2,660) to the variance from Prototype.
 IRR (1.5) Building/Sitemwork costs contributed a negative (1.5) pp to the variance from Prototype.

Sales
 NPV \$4,818 Sales contributed a positive \$4,818 to the variance from Prototype.
 IRR 1.4 Sales contributed a positive 1.4 pp to the variance from Prototype.

Real Estate Taxes
 NPV (\$79) Real Estate Taxes contributed a negative (\$79) to the variance from Prototype.
 IRR (0.0) Real Estate taxes contributed a negative (0.0) pp to the variance from Prototype.

Source: Target Corp.

	Cost	NPV	%
Land:	\$100K	(\$110K)	110%
Sitemwork:	\$100K	(\$70K)	70%
Building:	\$100K	(\$85K)	85%
On-going Exp:	\$100K	(\$1M)	x10

On-going Expense: eg. Real Estate Taxes, Operating Expense
 Assumes Store Opening occurs 1 year after closing.

EXHIBIT 7 | Economic Analysis Summary of Project Proposals

	Net Present Value*			Trade Area**		
	Base Case NPV (\$000)	10% Sales Decline (\$000)	IRR	Population 2000-2005 Increase	Median Income	% Adults 4+ yrs college
Gopher Place	\$23,000	(\$4,722)	12.3%	70,000	\$56,400	12%
Whalen Court	\$119,300	(\$16,611)	9.8%	632,000	\$48,500	45%
The Barn	\$13,000	(\$4,066)	16.4%	151,000	\$38,200	17%
Goldie's Square	\$23,900	(\$4,073)	8.1%	222,000	\$56,000	24%
Stadium Remodel	\$17,000	(\$7,854)	10.8%	N. Ap.	\$65,931	42%

*NPV is computed using 9.0% as discount rate for store cash flows and 4.0% for credit-card cash flows.

**Trade area is the geographical area from which 70% of store sales will be realized.

Gopher Place was a request for \$23.0 million to build a P04 store scheduled to open in October 2007. The prototype NPV would be achieved with sales of 5.3% below the R&P forecast level⁵. This market was considered an important one, with five existing stores already in the area. Wal-Mart was expected to add two new supercenters in response to favorable population growth in the trade area, which was considered to have a very favorable median household income and growth rate. Because of the high density of Target stores, nearly 19% of sales included in the forecasts were expected to come from existing Target stores.

⁵R&P stands for Research and Planning, the group that used demographic and other data to make site-specific (total and incremental) sales forecasts.

EXHIBIT 7 | (continued)

Whalen Court was a request for \$119.3 million to build a unique single-level store scheduled to open in October 2008. The prototype NPV could be achieved with sales of 1.9% above the R&P forecast level. Although Target currently operated 45 stores in this market, the Whalen Court market represented a rare opportunity for Target to enter the urban center of a major metropolitan area. Unlike other areas, this opportunity provided Target with major brand visibility and essentially free advertising for all passersby. Considering Target's larger advertising budget, the request for more than \$100 million of capital investment could be balanced against the brand awareness benefits it would bring. Further, this opportunity was only available for a limited time. Unlike the majority of Target stores, this store would have to be leased. Thus, if it was not approved at the November meeting, the property would surely be leased by another retailer.

The Barn was a request for \$13.0 million to build a P04 store scheduled to open in March 2007. The prototype NPV was achievable with sales of 18.1% below the R&P forecast level. This project was being resubmitted after initial development efforts failed because of a disagreement with the developer. This small rural area was an extreme contrast to Whalen Court. The small initial investment allowed for a large return on investment even if sales growth turned out to be less than expected. This investment represented a new market for Target as the two nearest Target stores were 80 and 90 miles away.

Goldie's Square was a request for \$23.9 million to build a SuperTarget store scheduled to open in October 2007. The prototype NPV required sales 45.1% above the R&P forecast level. This area was considered a key strategic anchor for many retailers. The Goldie's Square center included Bed Bath & Beyond, JCPenney, Circuit City, and Borders. Target currently operated 12 stores in the area and was expected to have 24 eventually. Despite the relatively weak NPV figures, this was a hotly contested area with an affluent and fast-growing population, which could afford good brand awareness should the growth materialize.

Stadium Remodel was a request for \$17.0 million to remodel a SuperTarget store opening March 2007. As a remodel, there was no prototype NPV for comparison. The recent sales decline and deteriorating facilities at this location could lead to tarnishing the brand image. This trade area had supported Target stores since 1972 and had already been remodeled twice previously. The \$17 million investment would certainly give a lift to the lagging sales.

Source: Target Corp.

EXHIBIT 8 | Individual Capital Project Request Dashboards



CAPITAL PROJECT REQUEST

Capital Expenditure Committee: November 2006

"Gopher Place"

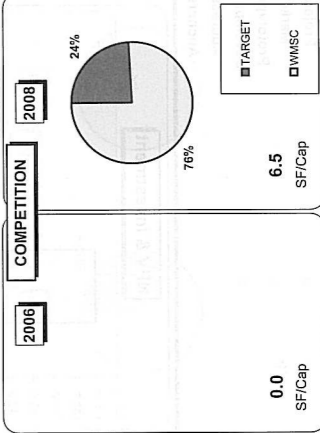
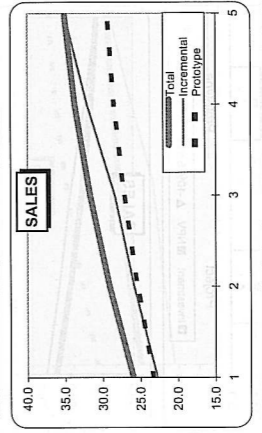
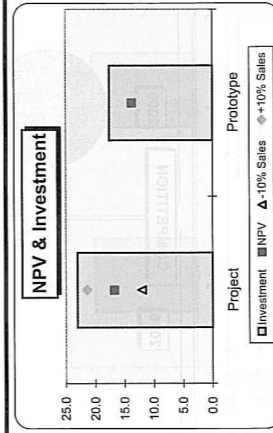
Project: Gophersville
 Market: P04.383-MSP
 Developer: Henderson Associates
 Address: SWC of Hudson and Elk
 Anchors: Freestanding
 Open: October, 2007
 Size: 127,000
 Own/Lease: Own

FINANCIAL SUMMARY		
TOTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$26,000	\$2,745
5th year 2005 Equivalent	\$35,100	\$5,688
Sales maturity	1.35	0.09
INCREMENTAL R&P SALES		
1st year 2005 Equivalent	Project	B/(P) Proto
	\$22,800	(\$455)
5th year 2005 Equivalent	\$35,100	\$5,688
Sales maturity	1.54	0.27
INVESTMENT		
Land	Project	B/(P) Proto
	\$3,205	\$264
Stilwork	3,164	(590)
Subtotal	\$6,369	(\$315)
Building	15,420	(5,052)
Other	1,227	(96)
Total Net Investment	\$23,016	(\$5,463)
VALUE		
IRR	NPV	B/(P) Proto
12.7%	\$13,201	\$2,493
Credit	8.1%	\$3,554
TOTAL	12.3%	\$16,755
\$3,038		
STORE SENSITIVITIES		
HURDLE ADJUSTMENT	NPV	IRR
Sales	(5.3%)	2.2%
Gross Margin	(0.72)	0.29
Construction (Building & Stilwork)	\$3,102	(\$751)
Full Transfer Impact	2.3%	9.3%

RISK/OPPORTUNITY		
10% sales decline	(\$4,722)	(1.3)
1 pp GM decline	(\$3,481)	(0.9)
10% Const. cost increase	(\$1,494)	(0.6)
Market margin, wage rate, etc.	(\$5,434)	(1.5)
10% sales increase	\$4,621	1.2

VARIANCE TO PROTOTYPE		
Land	\$287	0.1
Non-Land Investment	(\$4,741)	(2.6)
Sales	\$6,331	1.9
Real Estate Tax	\$615	0.2

P&L SUMMARY		
EBIT IMPACT	Project	B/(P) Proto
Thru Open Yr	(\$567)	(\$97)
5th Yr	\$4,452	\$686



BUILDING COST VS. PROTOTYPE		
Subgeographic		(\$1,238)
Proto Update		(117)
Market Conditions		(1,158)
Government Fees		(1,049)
Architectural		(485)
Technical		(615)
Procurement		(239)
A/E Fees		(81)
Signs		6
Contingency		(75)
Total Variance		(\$5,052)

INCENTIVE SUMMARY		
None Available	Vendor Fee	\$0
	Legal Fee	\$0

DEMOGRAPHICS		
Characteristics	MSA	Trade Area
2005 Population (000's)	650	70
2000-2005 Growth	15.0%	27.0%
Median HH Income	\$46,700	\$56,400
# HH +\$50,000 (000's)	97	11
% Adults 4+ Yrs. College, 2005	15%	12%
		3
		11%

- Target currently operates 5 stores in the market.
 - Transfer Sales: T-1526: 8% (7 miles E) derives 19% of sales from the proposed trade area.
 - R&P Sales assume Wal-Mart relocates a store to a Supercenter in 2007; Wal-Mart adds an additional Supercenter in Badgersville in 2008.



CAPITAL PROJECT REQUEST

Capital Expenditure Committee: November 2006

"Whalen Court"

Project: Buildback
Market: Unique Single Level
Prototype: Sawicky and Co.
Developer: Home Depot, Best Buy
Address: NNG of Gopher Rd. and High Investment Blvd.
Anchors: Home Depot, Best Buy

Open: October, 2008
Size: 173,585
Own/Lease: Lease

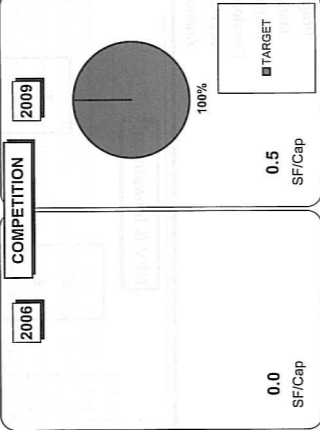
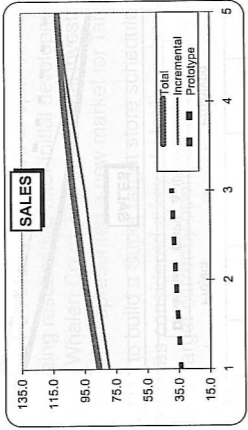
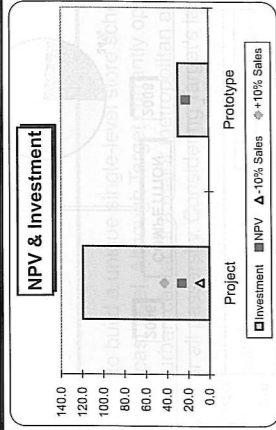
FINANCIAL SUMMARY		
TOTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$86,000	\$52,185
5th year 2005 Equivalent	\$111,800	\$69,031
Sales maturity	1.30	0.04
INCREMENTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$79,600	\$45,785
5th year 2005 Equivalent	\$111,800	\$69,031
Sales maturity	1.40	0.14
INVESTMENT	Project	B/(P) Proto
Lease	\$87,309	(\$78,856)
Sitework	0	3,796
Subtotal	\$87,309	(\$75,059)
Building	29,434	(15,128)
Other	2,520	93
Total Net Investment	\$119,263	(\$90,094)

VALUE	IRR	NPV B/(P) Proto
Store	9.9%	\$14,225 (\$3,174)
Credit	8.2%	\$11,650 (\$7,164)
TOTAL	9.8%	\$25,875 \$3,989
HURDLE ADJUSTMENT	NPV	IRR
Stores	1.9%	31.1%
Gross Margin	0.28	4.58
Construction (Building & Sitework)	(\$4,289)	(\$41,070)
Full Transfer Impact	7.7%	36.3%

RISK/OPPORTUNITY
10% sales decline (\$16,611) (1.0)
1 pp GM decline (\$11,494) (0.7)
10% Const. cost increase (\$2,178) (0.1)
Market margin, wage rate, etc. (\$16,877) (1.1)
10% sales increase \$16,647 1.0

VARIANCE TO PROTOTYPE
Lease (\$78,912) (15.1)
Non-Land Investment (\$10,168) (7.9)
Sales \$99,963 22.9
Real Estate Tax (\$637) (0.2)

P&L SUMMARY		
EBIT IMPACT	Project	B/(P) Proto
Thru Open Yr	(\$1,598)	(\$1,136)
5th Yr	\$14,034	\$8,509



INVESTMENT DETAIL		
Lease	Type: Building Lease	Sitework
	Rent: Prepay+\$3.3k	RE Tax (net of abatement)
	Closing: 10/2006	B/(P) Proto
Options	L4: Unique Risk Security, District Office, 13k sf Exp. Stock, 2nd Lvl Stock	
Subgeographic		(\$1,200)
Proto Update		(124)
Market Conditions		0
Government Fees		0
Architectural		(7,927)
Technical		(2,429)
Procurement		(428)
A/E Fees		(18)
Signs		(3,000)
Contingency		(\$15,128)
Total Variance		\$92
	Vendor Fee	\$0
	Legal Fee	\$0

DEMOGRAPHICS			
Characteristics	MSA	Trade Area	3-Mile Radius
2005 Population (000's)	18,768	632	1,248
2000-2005 Growth	2.0%	3.0%	2.0%
Median HH Income	\$57,200	\$48,500	\$43,800
# HH +\$50,000 (000's)	3,750	143	238
% Adults 4+ Yrs. College, 2005	30%	45%	37%

See attached for additional information.



CAPITAL PROJECT REQUEST

Capital Expenditure Committee: November 2006

"Goldie's Square"

Project: Goldie Country
Market: SUP04M
Prototype: Barsity Enterprises
Developer: SWQ of Ocean and Beach
Address: JC Penney, Circuit City, Borders, Bed Bath & Beyond, Ross
Anchors: JC Penney, Circuit City, Borders, Bed Bath & Beyond, Ross

Open: October, 2007
Size: 173,770
Own/Lease: Own

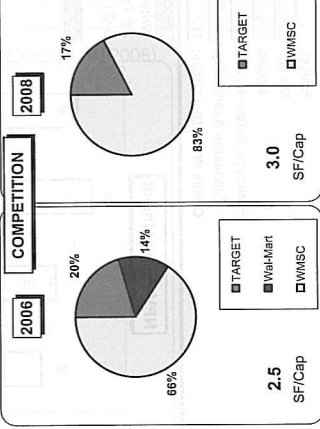
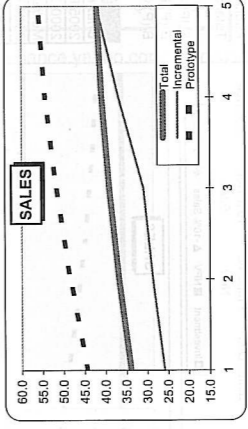
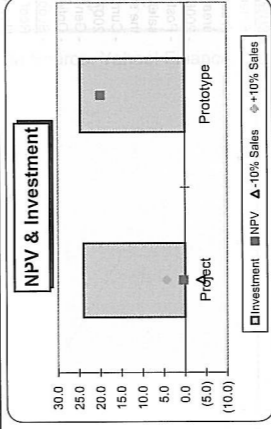
FINANCIAL SUMMARY		
TOTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$34,000	(\$10,304)
5th year 2005 Equivalent	\$42,000	(\$14,036)
Sales maturity	1.24	(0.03)
INCREMENTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$25,900	(\$18,404)
5th year 2005 Equivalent	\$42,000	(\$14,036)
Sales maturity	1.62	0.36
INVESTMENT	Project	B/(P) Proto
Land	\$3,615	\$1,385
Sitework	3,695	(425)
Subtotal	\$7,310	\$960
Building	14,969	(313)
Other	1,660	48
Total Net Investment	\$23,939	\$684

VALUE	IRR	NPV B/(P) Proto
Store	8.1%	(\$3,319) (\$18,222)
Credit	8.1%	\$3,635 (\$1,294)
TOTAL	8.1%	\$317 (\$19,516)
HURDLE ADJUSTMENT	NPV	IRR
Sales	45.1%	47.2%
Gross Margin	4.64	4.91
Construction (Building & Sitework)	(\$22,167)	(\$14,576)
Full Transfer Impact	62.5%	63.1%

RISK/OPPORTUNITY
10% sales decline (\$4,073) (1.1)
1 pp GM decline (\$3,929) (1.1)
10% Const. cost increase (\$1,470) (0.3)
Market margin, wage rate, etc. \$6,059 1.6
10% sales increase \$4,008 1.1

VARIANCE TO PROTOTYPE
Land \$1,501 0.3
Non-Land Investment (\$581) (0.1)
Sales (\$16,455) (4.4)
Real Estate Tax (\$2,662) (0.7)

P&L SUMMARY		
EBIT IMPACT	Project	B/(P) Proto
Thru Open Yr	(\$1,921)	(\$654)
5th Yr	\$2,951	(\$2,343)



INVESTMENT DETAIL		
Land	Acres: 11.69	Sitework
	PSF: \$7.10	RE Tax-Per Corp Tax
	Closing: 8/2006	B/(P) Proto
Options	None	
Subgeographic		Fixed Cost
Proto Update		\$539
Market Conditions		545
Government Fees		0
Architectural		(469)
Technical		(799)
Procurement		(170)
A/E Fees		(71)
Signs		50
Contingency		(75)
Total Variance		(\$313)
None Available	Vendor Fee	\$0
	Legal Fee	\$0

DEMOGRAPHICS			
Characteristics	MSA	Trade Area	3-Mile Radius
2005 Population (000's)	1,415	222	67
2000-2005 Growth	13.0%	16.0%	4.0%
Median HH Income	\$56,100	\$56,000	\$50,000
# HH +\$50,000 (000's)	291	41	12
% Adults 4+ Yrs. College, 2005	36%	24%	26%

COMMENTS
- Target currently operates 12 stores in the market. Total Target buildout for this market is currently estimated at 24 of which 7 are active/near term opportunities. Build out will include 12 SuperTarget units, 50% of the total.
- Transfer Sales: 25% of sales from a store located 2.1 miles NE; 4% from a store located 7 miles N; 25% of sales from a store 4 miles away.
- General Merchandise/Hardlines C Mix: 82/18.
- Alternatives to this buildback scenario:
>Reic: T-683 closes when Goldie's Square opens: Total NPV: \$6M; Total IRR: 9.3%.
>T-685 closes 1 yr after Goldie's Square opens: Total NPV: \$3.9M; Total IRR: 8.9%.
>T-683 closes 2 yrs after Goldie's Square opens: Total NPV: \$3.6M; Total IRR: 8.9%.



CAPITAL PROJECT REQUEST

Capital Expenditure Committee: November 2006

"Stadium Remodel"

Project: Boardwalk
 Market: Interior Remodel
 Scope: SUP1.1/S04
 Prototype Before & After: Not Site Constrained
 Expansion Availability: N/A
 Offsite Whse/Dist Office: N/A
 Remodel Cycle: Cycle 3 2007
 Last Remodel: NA
 Own/Lease: Own
 Sides Before & After: 484 / 465
 POG Length: 24728

FINANCIAL SUMMARY

TOTAL R&P SALES	Project	B/(P) Proto
1st year 2005 Equivalent	\$64,000	\$19,677
5th year 2005 Equivalent	\$64,000	\$7,940
Sales maturity	1.00	(0.26)

INCREMENTAL R&P SALES

Project	B/(P) Proto
1st year 2005 Equivalent	\$9,300
5th year 2005 Equivalent	\$9,300
Sales maturity	1.00

INVESTMENT

Project	B/(P) Proto
Land	\$0
Sitework	1,173
Subtotal	2,097
Building	\$7,097
Other	12,411
Total Net Investment	22,445

VALUE

Store	NPV	\$14,911
Credit	IRR	12.5%
TOTAL		\$828

STORE SENSITIVITIES

HURDLE ADJUSTMENT	NPV	\$15,739
Sales	IRR	10.6%

Gross Margin
 Construction (Building & Sitework)

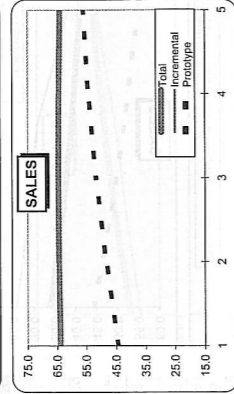
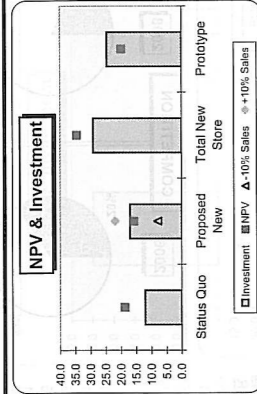
RISK/OPPORTUNITY

10% sales decline	(\$7,854)	(1.8)
1 pp GM decline	(\$6,457)	(1.5)
10% Const. cost increase	(\$910)	(0.3)
Market margin, wage rate, etc.	(\$11,317)	(2.7)
10% sales increase	\$6,216	1.5

P&L SUMMARY

EBIT IMPACT	Project	B/(P) Proto
Thru Open Yr	(\$6,103)	(\$4,812)
5th Yr	\$1,272	(\$4,025)

Source: Target Corp.



PROJECT DETAIL
 Write Off \$1061 (\$657 Bldg, \$43 Roof, \$361 Other)
 RE Tax-Per Corp Tax \$332
 B/(P) Proto (\$62)

SQUARE FOOTAGE

	Total	Sales	Stock	Support
Original Sq Ft	203,300	153,019	35,245	15,036
Additional Sq Ft	(10,544)	12,870	(2,326)	(2,326)
Total Sq Ft After Remodel	203,300	142,475	48,115	12,710

SUP04 Prototype	177,376	136,616	27,500	13,260
B/(P) Prototype	25,924	5,859	20,615	(550)
B/(P) Guide 1st FY			20,615	

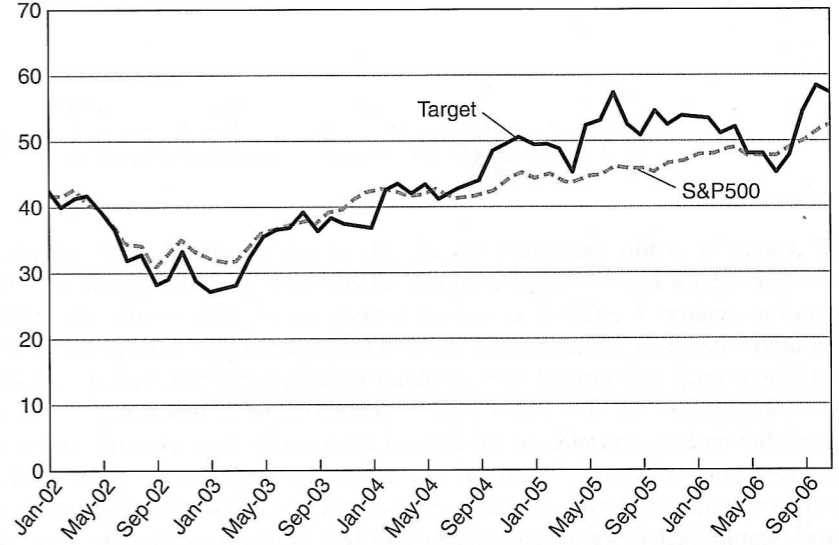
DEMOGRAPHICS

Characteristics	MSA	Trade Area	3-Mile Radius
2005 Population (000's)	806	113	84
2000-2005 Growth	5.0%	16.0%	15.0%
Median HH Income	\$50,774	\$65,931	\$64,597
# HH +\$50,000 (000's)	158	29	21
% Adults 4+ Yrs. College, 2005	28%	42%	44%

- Entered market in 1972. Currently operate 8 stores in this market.
 - A successful store at a strong long-term location serving an affluent family-oriented trade area.

- 2006 YTD Sales Trend: -0.9%
- Post-remodel sales assume a 17% sales lift over R&P base case sales. Base case sales assume a (10)% impact from buildback (3.3 miles, October 2007); the store is also in the process of being impacted by Park Place South.
- Current Value of T-0530: \$18.8M; R&P base case sales; Prototypical Interior Remodel in 2007; Tax benefit of depreciable property write-off: \$0.4M; Rank: 783 of 1395.
- General Merchandise/Hardlines C Mix: 68/32; based on T-0530 historical trend.
- Options: New Entrance System, Relocate Pharmacy, Relocate Electrical Room.
- Scope: Refrigeration Replacement, 4 Phases of Grocery Staging, Flooring Replacement, Roof Replacement, Temp Pharmacy, New Food Avenue, New Starbucks, New Optical, New Portrait Studio, New Signage.

EXHIBIT 9 | Stock Price Performance 2002-06



Data Source: Yahoo! Finance, <http://finance.yahoo.com/> (accessed October 24, 2008).