**Week 2: Financial Forecast Using Excel Financial Forecasting For Target Corporation**

**Introduction**

Target Corporation has had weak sales forecasts this year as compared to prior year. Despite this, Target Corporation is expected to outperform in next year. The purpose of this paper is to describe the financial projections of Target Corporation next year over the current balances. The paper shall specifically discuss the growth rates projected using Prof. Steven’s Model as well, explain all other assumptions, provide explanations and interpretation of the projected financial statements, as well as discuss the overall forecast and financial ratios under this model. The methodology in this analysis was basically the use of Excel financial forecasting techniques with the aid of Prof. Steven’s model of financial forecasting. Data was obtained through secondary data sources, specifically online resources. The data analysis shall be presented in table format.

**Explanation of Growth Rates**

Target’s growth rates for sales revenue for the current quarter had declined by 5.6% over the last quarter’s sales. Target Corporation’s revenues for the 12 month trailing period ending 30 Jul, 2016 are reported to have increased by 1.6% over the prior year’s revenues. The decline in the quarterly sales revenues since the first quarter which ended in 30 April, 2016 is a clear indication that the revenues for next year will increase slightly over the current year’s sales. It’s therefore not likely that the sales revenue for Target Corp. can increase greatly by more than 2% next year, 2017. Some analysts are even stipulating a decline of revenues but Target’s consensus panel of analysts are estimating a slight increase. It was reported that Target Corp. itself had cut its own sales forecasts after the last quarter’s results fell below the expectations. The growth rate of other revenues is expected to increase by about 1.46% similar to the current year’s estimated increase of 1.4% compared to prior year. The overall average sustained earnings growth rate for the company is however projected to increase by about 6.8% in 2017.

**Explanation of All Other Assumptions**

|  |  |  |
| --- | --- | --- |
| **Inputs (First Page)** | **% of Current Balance OR Forecast If Different** | **Explanation of Assumptions** |
| Cost of Sales % | 70.00% | Target's current cost of sales are $50321 while the sales are $71603 for the past trailing 12 months ending July 30.  |
| Selling/General/Administrative Expenses % | 66.00% | If the SGA is less than 30% of the gross profit, the company is in less competitive industry. If SGA is close to 100%, it's operating in a very competitive industry. |
| Other Expenses % | 11.00% | Other expenses in the 12 month trailing period ending 30 Jul, 2016 was 11% of the total gross profit. |
| Other Expenses% | 6.80% | Income tax expense was 6.8% of the total gross profit in the 12 month trailing period ending 30 Jul, 2016 |
| Cash % | 7.00% | The cash & cash equivalents for Target Corp in the last 4 quarters ending July 30 is 7% of the total assets.  |
| Accounts Receivable % | - | There is no issue of accounts receivables in the last 4 Quarters ended July 30, 2016. This is basically because this is a retail business. Manufacturing companies however can’t have zero accounts receivables throughout the year. |
| Inventories % | 23.000% | Target's Inventory are only 23% of the total assets but 66% of the total current liabilities. The inventories have increasing trend and are therefore likely to increase next year by around 6%.  |
| Other Current Assets % | 4.500% | Other current assets were 4.55% of the total assets for the 12 year period ended July 30. |
| Other Assets % | 63.25% | Property, Plant & Equipment was 63.25% of the total assets for the 4 Quarters ended July 30. |
| Other Assets % | 2.32% | Other assets were 2.32% of the total assets in the last four quarters. |
| Accounts Payable % | 33.00% | The company has accounts payables amounting to 33% of the total liabilities in the 12 month period ending July 30, 2016.  |
| Notes Payable % | 4.00% | The short-term/current long term debt was 4% as of July 20, 2016. |
| Other Current Liabilities % | 0.50% | Other current liabilities were only 0.5% of the total liabilities in the last 12 month period ending Jul 30. |
| Other Long-Term Liabilities % | 45.00% | Commercial paper represented the highest percentage of the company’s debt of 45% in the 12 month period ended July 30, 2016. |
| Other Long-Term Liabilities % | 6.00% | Other long-term debt were 6% of the total liabilities. |
| Other Equity % | -5.00% | The company has been repurchasing stock which has led to the negative 5% decrease of the total stockholders' equity. |
| **Next Year Forecast** |
| Growth Rate for Sales Revenues (%) | 2.0% | The sales are estimated to increase by 2% in next year even though the current quarter has experienced a decline of 5.7% from last Quarter's. The current sales revenues for the 12 month trailing period ended 30 Jul had increased by 1.6% over the prior year’s sales revenues.  |
| Growth Rate for Other Revenues (%) | 1.46% | The growth of other revenues is estimated to be by a slight increase of 1.46% from the current year's estimated growth rate.  |
| New Long-Term Debt $ (+) | $1,962.0  | The company is forecasting a possible increase of $1,962m over the current long-term debt in 2017. In order for Target to operate effectively, it basically obtains money for financing operations through long-term debt.  |
| Common Stock Dividends $ (+) | $2.36  | The Company had a 10.55% increase over previous year. Analysts expect an increase of 7.09% for next year to an estimated $2.36. The current dividend rate is at $2.2.  |
| (90% to Paid-in Cap. & 10% to Com. Stk.) New Common Stock Issued $ (+) | $600.0  | Target is expected to issue approximately 600 million shares of common stock in 2017. The company has issued approximately over 600 million shares of common stock over the last two fiscal years, currently and it’s expected to be around that next year. |
| (90% from Paid-in Cap. & 10% from Com. Stk.) Common Stock Repurchased $ (-) | $106.0  | Target would be expected to repurchase approximately 106 million shares of stock by the end of the second or third Quarter of 2017. The price of the common stock repurchases next year is likely to be around $70 per share.  |
| Preferred Stock Issued $ (+) | $0.0  | The company has 5 m preferred shares outstanding but none has been issued so far. |
| Tax Rate % (+) | -0.9% | The tax rate is expected to drop further next year by approximately 0.94% to around 30.66% due to increased tax saving incentives. Target Corp. has been performing strategic planning which would lead to further decrease in the effective tax rate 2017.  |
| Depreciation Rate as Percent of Gross Fixed Assets % (+) | 3.7% | The depreciation rate is likely to increase by approximately 3.68 % as percent of Gross Fixed Assets. The depreciation rate increases annually by approximately 3.7% using the straight-line method.  |
| Capital Investments / New Fixed Assets $ (+) | $0.0  | It's not likely that the Company would acquire new fixed assets while it's discontinuing some activities and selling some invested assets in some regions.  |
| Interest Expense for Short-Term & Long-Term Debt % (+) | 0.56% | Target Corp doesn't have a specific trend of changes of interest but the current interest rate is likely to increase slightly by 0.56% next year. Target Corp. has a good credit rating and a good financial historical record which enables it to obtain lower interest debts. |
| Interest Income % (+) | 0.0% | The company has not received any interest income and is thus not likely to receive it next.  |

**Explanation and Interpretation of Projected Financial Statements**

The cost of sales is currently at 70% of the total sales, this leaves the company with a Gross profit of only 30%. The high costs of sales for the trailing 12 months ended 30 Jul, 2016 was $50,321 while the sales were $71, 603. The SG&A expenses were 66% which is very high. According to Guru Focus, (2016) high SG&A expenses above 30% mean the firm operates in a very competitive environment as is the case with Target. The inventories represent 23% of the total assets and 66% of the current assets. Cash is only 7% of the total assets and 21% of total current assets which shows that the company is not efficient enough. The accounts payables of the company are 33% of the total liabilities. The notes payables are only 4% of the total liabilities with a greater portion being other being long-term debt of 45%.

**Explanation an Interpretation of Overall Forecast Results & Financial Ratios**

The gross margin is only 30% which shows that the profitability is not very high due to high costs of sales. The inventories turnover ratio is currently at 1.3 which means the company is overstocking to meet the unexpected demand and for high seasons. Target and its competitors usually experience changes in demand as the seasons change. The quick ratio for the company is currently at 0.26 which is means Target is currently unable to meet its short-term debts as and when they are due. ROA is currently 7% which means the assets are utilized well while the ROE is 22.6% which is also desirable. The ratio of debt/equity for the company is currently 2.16 which shows that there’s high leverage. The company majorly relies on the financing from debt which is the main reason for this high ratio. The performance of Target at the moment is not very good but it’s expected to outperform in the high season. The investors are advised to hold their stock in Target but not to shun away from it.

**Bibliography**

* Incase no access > thaddaeusakama@gmail.com <

Financial Times LTD. (2016). *Target Corp. forecasts.* Retrieved from

markets.ft.com/data/equities/tearsheet/forecasts?s=TGT:NYQ

Guru Focus. (2016). Target Corp (TGT) analysis and valuations. Retrieved from

[www.gurufocus.com/analysis/TGT](http://www.gurufocus.com/analysis/TGT)

Pettypiece, S. (2016). *Target cuts annual forecasts after sales decline last quarter.* Retrieved

from [www.bloomberg.com/news/articles/2016-08-17/target-cuts-annual-forecast-after-sales-decline-last-quarter](http://www.bloomberg.com/news/articles/2016-08-17/target-cuts-annual-forecast-after-sales-decline-last-quarter)

Yahoo Finance. (2016). *Target analyst estimates.* Retrieved from finance.yahoo.com/q/ae?s=TGT+Analyst+Estimates