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ACCOUNTANCY 420 CASE STUDY ANALYSIS

By

Jack Bennett Moore

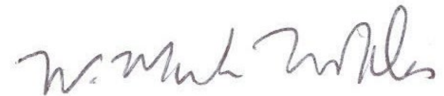
A thesis submitted to the faculty of the University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College,

Oxford, MS

May 2023

Approved by

Advisor: Dr. Victoria Dickinson



Reader: Dean W. Mark Wilder

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Abstract

Throughout my junior year at the University of Mississippi in my Honors practicum class, I was able to analyze ten cases covering a wide variety of accounting topics. During the fall semester of 2021, the class researched cities around the U.S. and internationally for accounting internships, became Corporate Finance Institute Excel Certified, and conducted an interview with a professional that had experience and wisdom to share regarding the business world. Additionally, the class had the privilege of having highly acclaimed accounting firms speak to the class on an array of accounting issues. The practicum class began with a documentary covering September 11, 2001, and then transitioned into the impact of COVID-19 on Pfizer's financial position and business operations. In the spring of 2022, I worked with three of my classmates for the duration of the semester on a comprehensive accounting and financial analysis of a fortune 500 company of our choosing. The thesis's final five cases present our research on Target Corporation, including evaluations of financial statements and recommendations for service lines such as audit, tax, and advisory. We defended our research at the end of the semester in front of a panel of classmates, professors, and accredited accounting professionals from distinguished firms around the country.

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Case 1

Minutes that Changed the Country

September 15, 2021

September 11th, 2001 marks an incredibly fateful day within the United States when nearly 3,000 Americans lost their lives in the most devastating attack on American soil since Pearl Harbor in 1941. Because Islamic terrorists lacked the means to successfully attack the United States through a military approach, they directly targeted symbols of our nationSeptember 11th, 2001 marks an incredibly fateful day within the United States when nearly 3,000 Americans lost their lives in the most devastating attack on American soil since Pearl Harbor in 1941. Because Islamic terrorists lacked the means to successfully attack the United States through a military approach, they directly targeted symbols of our nation's economic and miliarial prosperity through attacks on both the Twin Towers and the Pentagon. Such a tactic imposed by Al-Qaeda, or the extremist network of Islamic individuals, initiated the start of three different wars, including The War on Terror, The War in Afghanistan, and the Second Gulf War. Immediately following the attack, the United States invoked Article V of NATO, calling all the countries associated with NATO to take urgent military action against Afghanistan. When reflecting on the implications of the 9/11 attacks on our nation, I am particularly intrigued by the tragedy's lasting economic impact on certain industries and individual businesses within the United States. In fact, an independent economic think tank, Milken Institute, estimates that "the overall impact of terror attacks [associated with 9/11] to be nearly $200 billion," and this eye-opening estimate piqued my curiosity regarding the economic repercussions of this damaging event. Though it is critical to consider the physical destruction caused by these attacks and how the tragedy has certainly plagued the American spirit, I recognize the underlying influence on the market and how such an impact still exists among businesses today.

Prior to this case study, I had a potentially immature outlook on the economic impact of 9/11 on industries and businesses most likely derived from the nature of my age. Being just

eleven months old when the attacks occurred, my life has not been directly influenced or affected by the attacks unlike many other adults. I was obviously not part of the workforce during the time and have been limited to just witnessing the emotional turmoil caused by the attacks. However, after researching thoroughly into the economic impact, I have a much broader appreciation for those industries and people that managed to overcome what I perceive as an unimaginable event. Also, I found it particularly enlightening how much of a global impact economically the attacks had; I had an incorrect pre-understanding that America was the only country around the world that felt the aftermath.

Directly after the attacks on September 11th, 2001, an economic slowdown struck the United States, causing businesses across the nation to suddenly respond and adapt to this unforeseen financial crisis. For example, the industry of transportation and travel was forced to an extreme halt, given the dangerous nature of the event involving four hijacked commercial jetliners, who effortlessly surpassed security with deadly weapons in their luggage. As a result, the Federal Aviation Administration immediately shut down all airports and travel, and a new level of fear concerning travel across the country was instilled within Americans. In addition to the transportation industry, the insurance sector similarly faced economic consequences of the 9/11 attacks, as the industry suddenly experienced substantial financial losses stemming from claim payouts to businesses that were directly impacted by the tragedy. On a local scale, where the initial attack on the Twin Towers occurred, it is important to acknowledge several of the world's largest companies that are located within the business district of New York City. Given the proximity of their headquarters to the attack, these businesses were unable to effectively operate and produce an economic output amidst the city's major shutdown.

To fully understand the drastic impact on the airline industry following the hijacking of commercial planes, it is critical to recognize the major differences associated with the flying process prior to the 9/11 attacks. Before this tragedy struck the United States, passengers were allowed to kiss their loved one's goodbye at the gate, security checks were incredibly lenient and relaxed, and boarding passes or identification were typically not required to enter the terminal. Furthermore, airports were often secured by private contractors, involving very little federal regulation. In other words, the lenient nature of airport security prior to the attacks undeniably made it possible for the Al-Qaeda-affiliated terrorists to succeed in their hijacking plans. Such a tragedy and the subsequent fear among Americans to travel via airplane led to the passing of the Aviation and Transportation Security Act in November of 2001. Essentially, through the Transportation Security Administration (TSA), checked bags were finally required to be scanned by the advanced technology of X-ray machines located at airport security. In December of 2002, TSA required every bag to be thoroughly investigated using a highly detailed 3D imaging machine. Within two years of the attacks, pilots also began carrying firearms, and airports intensified the level of security by deploying canine units in 2008 (Schaper, 2021). Through these examples, it is clear how aviation travel and the level of security in and surrounding airports drastically changed because of the tragedy associated with 9/11.

Immediately after the attacks, American citizens were terrified by the leniency of airport security systems, and such a fear to fly caused the airline demand to remain significantly lower for years to come. According to NCBI, the horrors that occurred on September 11th led to "both a negative transitory shock of over 30 percent and an ongoing negative demand shock amounting to roughly 7.4 percent of pre-September 11 demand" as of November 2003 (Jackson, 2007). In August of 2001, just one month prior to the attacks, the airline industry was booming, setting a

historic record for the number of airline passengers in a month at a peak of 65. 4 million passengers. However, this peak was not reached until three years after the tragic event of 9/11 when Americans finally discovered a sense of trust in the newly enhanced airport security systems. In fact, the airline industry reached "98.3 percent of its August 2001 peak" in July of 2004, and by July of 2005, this number had skyrocketed to 71 million travelers via air (Notis, 2012). Thus, the transportation industry was forced to acknowledge the undeniable fear among American citizens by revamping the security systems to increase trust among passengers.

In addition to the 9/11 attacks largely impacting the aviation industry regarding security and demand, the attacks severely damaged the industry from an economic standpoint. Essentially, New York City is widely known across the world as a travel and tourism hotspot. In fact, travel, and tourism "represent 6 percent of the economic output, employing 470,000 people" and generating $34 billion in revenue in 2000 (Josephs, 2021). In the fourth quarter of 2001, the revenue generated by the sector of transportation largely declined by approximately "$3 billion, or 29 percent, from the same quarter a year ago" in New York City (Josephs, 2021). Further, United States airlines lost $8 billion in 2001 and managed to stay below profitability for four years to come, losing $60 billion over that same period. Overall, these record losses resulted in the consolidation of airline agencies, forcing smaller companies to eventually merge with larger ones, leaving four major carriers in the driver's seat: American, Delta, United, and Southwest. By 2018, these four carriers "control[led] about three-quarters of the U.S commercial air travel market" (Josephs, 2021). Unfortunately, the attacks affected the hundreds of thousands of workers in this industry, and "a record $54 billion federal bailout prohibited airlines from laying off staff" (Josephs, 2021). As a result, the aviation industry was forever changed by this tragedy

through the economic repercussions that caused four major airlines to surpass smaller airline companies, consequently leaving an unfortunate number of airline workers without jobs.

Because the world had never witnessed a terror attack of this magnitude before, practically all global commercial insurance companies offered reasonable terrorism coverage. Therefore, in the aftermath of the disaster, the insurance industry was a sector that suffered the most crucial losses. In fact, an estimated $32.5 billion of insured losses from September 11 were incurred, primarily on policies for aviation liability, property, and most significantly business interruption. Of the estimated total insured losses, 11 percent ($3.5 billion) was for aviation liability, 19 percent ($6 billion) for property excluding the World Trade Center, and a 33 percent ($11 billion) for business interruption; the World Trade Center itself contributed $11 billion in insured losses (Wilkinson, Hartwig 2010). Major reinsurance companies played a tremendous role in mitigating the economic impact of the attacks, but at a hefty cost. Warren Buffett's Berkshire Hathaway, along with other global insurance companies such as Munich Re, Swiss Re, and Lloyd's of London are just a few examples of the major reinsurance companies that witnessed unprecedented losses and paid astronomical claims. Unfortunately, Berkshire Hathaway suffered $2.4 billion in underwriting losses, or an estimated 3 percent to 5 percent of the global insurance industry's losses. Further, Swiss Re shares fell 13 percent on September 11, while Munich Re reported a 2.6 billion Euro loss (Liedtke, Courbage 2002). As the world's biggest insurance market, Lloyd's of London faced approximately $1.92 billion of claims related to 9/11, "making it the costliest single calamity in Lloyd's 320-year history" (Cowell, 2001). Although Warren Buffett acknowledged the strong possibility of a terrorist attack at any given moment, 9/11 ultimately pushed him and other insurance companies to rewrite terrorism policies. Berkshire Hathaway and most other insurance companies limited its terrorism coverage to solely

nuclear, chemical, and biological attacks following 9/11 to avoid such massive losses (Cowell, 2001). Buffett argues that had it been a nuclear attack, the entire company could have resulted in bankruptcy. Despite the billions of dollars in losses that insurance companies around the world suffered in the years following 9/11, the insurance industry was able to return to their normal profitability because of spiked insurance rates in the following few years. (Cowell, 2001).

Although less than one percent of media and entertainment businesses were stationed in Manhattan at the time of the attack, the industry experienced substantial economic consequences. More specifically, in the two years that followed the attacks, this sector stomached gross economic output losses of $1.6 billion, capital losses of $50 million, and revenue decline of $2.4 billion (Catell 2001). Because the attack primarily struck New York City, where the media industry generated $54 billion in city revenues and $21 billion in gross city product for the year of 2000, the industry certainly suffered from the local tragedy (Catell 2001). In fact, Sony experienced a record financial performance in the summer leading up to the attacks, demonstrating the company's ability to thrive in New York City before the financial blow associated with 9/11. Given the uncertainty of the near future following the tragedy, "market valuations for the sector declin[ed] an additional 15 percent for entertainment companies, 8 percent for media companies and 1 percent for publishing companies" (Catell 2001). On the other hand, the trend for several American sources of entertainment switched from location-based entertainment to home-based entertainment, opening the market for companies like RedBox, which began in 2002. In addition to the losses the media and entertainment industry experienced following the attacks, costs of operation greatly increased due to expanded expenditures on security and general business disruptions. In the end, the media and entertainment industry certainly struggled to flourish within New York City during the city's

immediate shutdown of the 9/11 attack, further demonstrating the detrimental impact this tragedy had on businesses in the United States.

Along with the emotional trauma and heartbreak associated with the 9/11 attacks that thousands of Americans still endure today, an economic disaster of the terrorist attacks also occurred that forever changed the momentum of several different industries. Though the immediate consequences were incredibly devastating, it is apparent that these industries such as aviation and travel, insurance, and media and entertainment have all managed to adjust and rebound financially from the discussed losses. However, the heart-wrenching sights of the hijacked planes crashing into the World Trade Center in New York City and the Pentagon in Washington D.C are wounds that will forever be left open for many Americans and people all around the world.

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Case 2

Design Your Life: Charlotte, North Carolina

October 6, 2021

After extensively researching Charlotte, North Carolina, the city where I hope to move after college and begin my accounting career, I have learned a great deal about the city and become even more set on the idea. Although I grew up my entire life just two hours from Charlotte in Pinehurst, the extent of my knowledge was limited to merely a few restaurants, the golf courses, and the professional sports teams that call The Queen City home. I thought I could see myself moving there as a college graduate based on the countless times I've visited, but now I am convinced of my desire.

First, I didn't realize how most people (specifically more than 85 percent of locals) travel to and from work by car, which I personally find more appealing than public transportation. While North Carolina ranks 47 out of 51 for quality of healthcare systems in the United States, Charlotte is home to Carolinas Medical Center, a highly ranked hospital for the entire nation. Having a distinguished hospital is especially attractive to me when thinking about the possibility of starting a family in Charlotte, which is a possibility I must take into consideration. On a similar note, Charlotte-Mecklenburg Schools have received widespread national recognition for academics with many great public and private options. I was also surprised to see the affordability of housing just a few miles from downtown; it would be very manageable financially with a roommate or two to start. Although, I was disappointed to see that South End is one of the most expensive locations to live because I enjoy how it is primarily younger people close to my age. I will definitely have to get accustomed to the high level of traffic compared to Oxford and Pinehurst, but having Charlotte-Douglas International Airport just a few miles from downtown is a major convenience.

However, the crime in Charlotte was something I was completely oblivious to and makes me somewhat worried. Crime rates in Charlotte are 87 percent higher than the national average,

2 and there is a one in twenty-two chance of becoming a victim of crime. Thankfully I am now aware of the areas to avoid in Charlotte and the areas that are safer options to live.

It was really enlightening to prepare a budget for what it would roughly cost me per month to live in Charlotte. Even though it is not exactly accurate, it was surprising to see how much money I would have left over to save or spend on Hornets and Panthers games.

Charlotte, North Carolina

Geographical features

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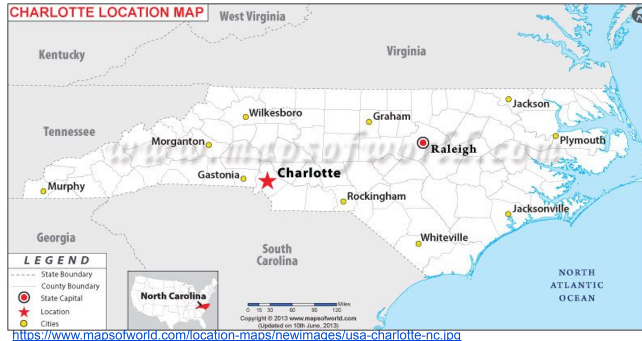
- Located in the southwestern Piedmont region, Mecklenburg County
- 85 miles southeast of Appalachian Mountains and 180 miles southwest of Atlantic Ocean.



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Climate

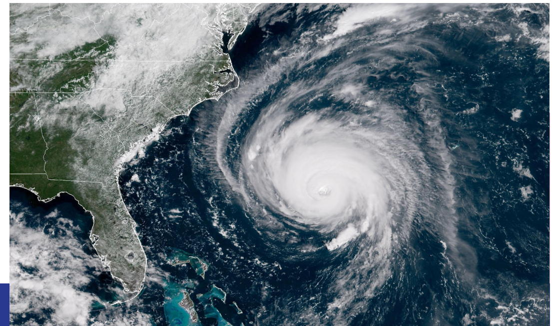
Statistics

- 43 inches of rain annually (Oxford gets 54 on average)
- 2 inches of snow
- Approximately 218 sunny days per year

Summer and Winter are very similar to other places in the south

- Highs in 90s, lows in 70s during summer
- Highs in 40s-50s, lows in 20s-30s during winter

Hurricanes normal



Prevalent Industries

Top 5 most prevalent industries in Charlotte:

1. Banking
2. Financial Services
3. Manufacturing
4. Energy
5. Automotive

5 largest corporate headquarters:

1. Bank of America (financial services)
2. Lowe's (home improvement)
3. Duke Energy (electrical and natural gas utility company)
4. Nucor (steel manufacturing)
5. Compass Group USA (commercial foodservice)

Transportation Hubs

Charlotte-Douglas International Airport (CLT)

- 1,600 flights a day, top ten in the world
- 178 nonstop flights around the world

Charlotte Regional Partnership Reseach Department: October 2010

Going home?

Edward

Hometown: Baton Rouge, LA

Mode of transport: Plane OR car

Length of trip: 2 hrs 15 mins OR 11 hrs, 45 mins

Cost: Plane tickets range from about $200-300

Madison

Hometown: Boulder, CO

Mode of transport: Plane OR car

Length of trip: 3 hrs, 24 mins OR 23 hrs, 38 mins

Cost: Plane tickets range from about $200-350

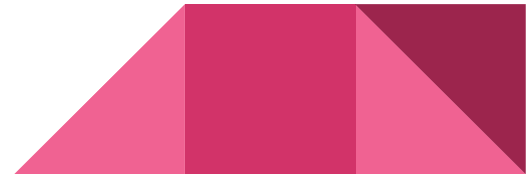
Bennett

Hometown: Pinehurst, NC

Mode of transport: Car

Length of trip: 2 hours

Cost: about 101 miles worth of gas



Commuting in Charlotte

- One-way commute takes on average 25.3 minutes (U.S average is 26.4 minutes)
- 76.6 percent drive their own car alone, 10.2 percent carpool with others commuting to work.
- CATS (Charlotte Area Transport System) has light rail train called Lynx that rides throughout downtown.

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Civic/Religious/Charitable Organizations

Edward

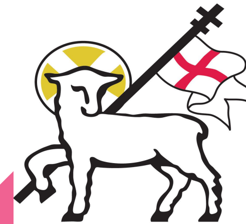
- Coastal Conservation Association (CCA)
- Habitat for Humanity
- Catholic Charities, Diocese of Charlotte

Madison

- Furnish For Good
- Humane Society of Charlotte
- RAIN, Inc

Bennett

- LAMB Foundation of NC
- Promise Youth Development Inc.
- Roof Above Inc.



sharecharlotte.org

Recreational Activities

- Carolina Panthers- Bank of America Stadium (NFL)
- Charlotte Hornets- Spectrum Center (NBA)
- Nascar- 85 percent of teams located in the region, Nascar Motor Speedway and Nascar Hall of Fame
- Charlotte FC- MLS' 30th franchise
- U.S National Whitewater Center
- Lake Norman- largest man-made body of freshwater in NC
- Charlotte Metro Credit Union Amphitheatre

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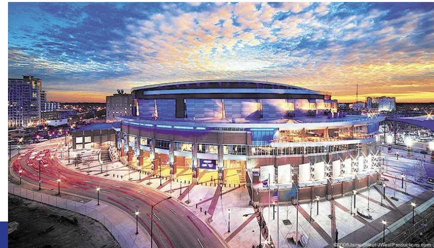
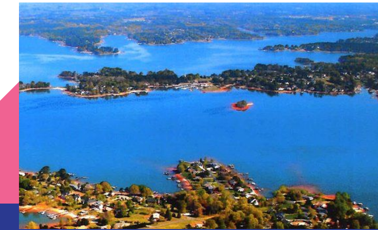




Crime in Charlotte

- Crime rates in Charlotte are 87% higher than the national average
- Safer than 5% of the cities in the US
- 1 in 22 chance of becoming a victim of crime
- Year over year crime in Charlotte has increased by 6%
- Violent Crimes in Charlotte are 95% higher than the national average

(all based on 2019 calendar year reported in September, 2020)

Most dangerous areas in Charlotte:

❖ Pinecrest
❖ Lincoln Heights
❖ Tryon Hills
❖ Grier Heights
❖ Seversville

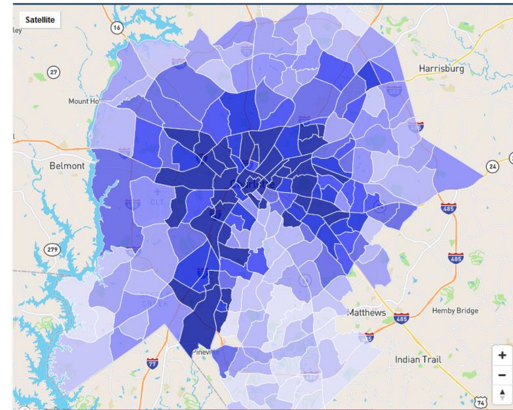


Photo credits: UrbanPlanet.org

Crime Statistics

Date & Last Updated: This data reflects the 2019 calendar year and was released from the FBI in September, 2020; this is the most current data available.

Statistic	Reported incidents	Charlotte /100k people	North Carolina /100k people	National /100k people
Total crime	44,052	4,665	2,729	2,489
Murder	103	10.9	6.0	5.0
Rape	317	33.6	31.0	42.6
Robbery	1,975	209.2	72.5	81.6
Assault	4,587	485.8	262.4	250.2
Violent crime	6,982	739	372	379
Burglary	5,426	574.6	519.1	340.5
Theft	28,304	2,997.5	1,666.0	1,549.5
Vehicle theft	3,340	353.7	172.2	219.9
Property crime	37,070	3,926	2,357	2,110

Photo credits: areavibes.com

Quality of Healthcare

- North Carolina ranked 47 out of 51 for quality of health care systems (2021)
    - 48th in 2020
    - 50th in 2019
- Carolinas Medical Center: hospital located in Charlotte, ranked in top 4 of North Carolina and among the top hospitals for the entire nation

School System

Charlotte-Mecklenburg Schools (CMS)

- Have received widespread national recognition for academics; B+ ranking according to Niche.com
- Myers Park, Providence, Pine Lake some of the highest rated high schools

Private Schools

- Charlotte Catholic High School: highly rated school
- About $13,000 a year to send child to private school; receive discounts for every extra child sent

Where to Live?

Option 1: Crest Gateway Apartments - Uptown Charlotte, NC

Photo credits: apartmentguide.com

Crest Gateway Apartments

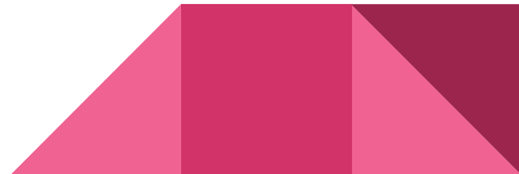
3 Bedroom 2 Bath

1300 Square Feet

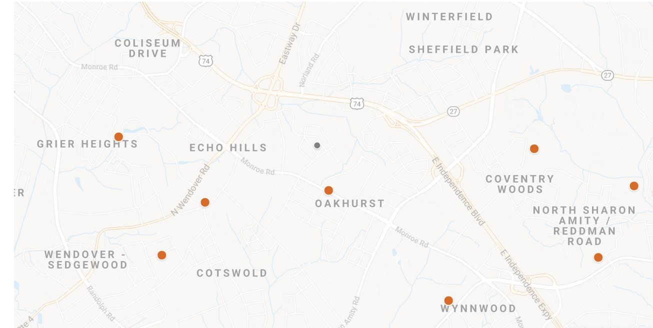
Rent: $2,175

Amenities: Private patio, stainless steel appliances, 9 ft ceilings, washer and dryer, pet stations, walking distance to Uptown Charlotte, controlled access breezeways

Parking: surface lot parking - $50/mo, assigned covered parking - $50/mo, street parking - free



Birchside Dr. Townhomes



(Oakhurst): $2400/month

- 3 bedroom, 2.5 bath, two-car garage
- 1985 sq.ft.
- 13 miles from CLT Douglas International Airport

https://images.marketleader.com/HouseImages/CAROLINAMLS/159/f_3781159_08.jpg

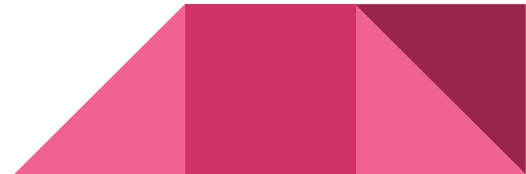
Everyday Life

Conveniences

- Great public transportation: busses, trains, ride-sharing; close to downtown, nightlife, plenty restaurants
- Washer/Dryer included in apartment, pet friendly if we have one
- 7 minute drive to Walmart, 6 minute drive to Whole Foods, 10 minutes to Publix

Inconveniences

- Traffic, especially 7-9 AM and 3-5 PM



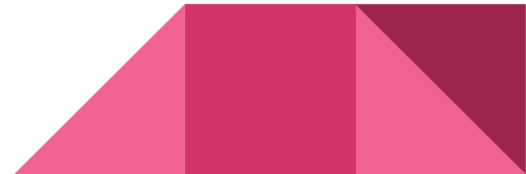
Tax Considerations

Federal income tax bracket (assuming income of $55,000): 22%

North carolina state income tax: 5.25%

Average local property tax (Mecklenburg County): 1.05% (national avg: 1.07%)

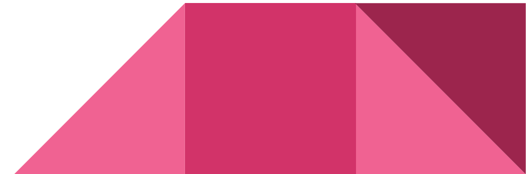
Local sales tax: 7.25%



Budget ($60,000 annual salary)

1. Federal income tax - $6,188, $516/month
2. State income tax - $2,635, $197/month
3. Social security tax - $3,720, $310/month
4. Medicare tax - $870, $72.50/month
5. Rent - $800
6. Utilities - $58
7. Internet - $20
8. Cell phone plan - $40
9. Car payment - $500
10. Car insurance premium: $124.50
11. Transportation - LYNX Blue Line Light ($2.20 per ride), CityLYNX Gold Line (free), gas ($2.64/gallon) - approximately $150
12. Groceries - $250/person
13. Entertainment (going out): $400
14. Parking uptown: $50
15. Savings: 500

Left over each month: $1,012



Case 3

Corporate Finance Institute Excel Certification

October 14, 2021

The Board of Directors of the
Corporate Finance Institute® have conferred on

Bennett Moore

who has pursued studies and completed all the
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Case 4

Financial Impact of COVID-19 on Pfizer

October 27, 2021

Introduction to Pfizer’s Financial Statements

Pfizer’s operations, financial condition, and business have been impacted by COVID-19 in varying degrees for multiple reasons. To start, Pfizer is the primary leading pharmaceutical company in the United States and the main manufacturers of COVID-19 preventative measures such as masks, vaccines, and booster shots. As the demand for these products dramatically changed due to COVID-19, so did their financial position. Specifically, an “unfavorable impact of approximately $770 million or 2 percent [occurred] due to covid 19, primarily reflecting lower demand for certain products in China and unfavorable disruptions to wellness visits for patients in the U.S, which negatively impacted prescribing patterns for certain products” (Pfizer 2020 Form 10-K, 34). However, the opposite economic effect was true for shareholders, as they saw earnings per share increase from 1.91 in 2019 to 2.22 in 2020.

Total shareholder return is Taking a look at Pfizer’s total shareholder return unit (TSRU), expected dividend yield increased from 3.27 percent at year end in 2019 to 4.36 percent at the end of 2020. Looking at the pandemic as a whole, Pfizer initially lost revenue due to COVID-19. With the creation of the vaccine, they were able to gain revenue back exponentially from government funding through taxes.

Net cash flows from operations increased from 12.6 billion in 2019 to 14.4 billion in 2020, an increase of 14 percent. Also, the 2020 reported diluted earnings per share decreased 40 percent compared to 2019, which is not surprising considering the negative economic impact COVID-19 has had on the market.

Pfizer According to Different Search Engines

Using three different search engines, we were able to find similar results regarding Pfizer's vaccine revenues and financial position in 2021. According to Investopedia via the search engine Brave, Pfizer's COVID-19 revenue was roughly 60 percent higher than earlier estimated. Also, while most of the revenue is thought to be from the vaccine, Pfizer revenues grew operationally by eight percent. An increase in revenue is due to the increased ability by Pfizer to produce and distribute the vaccine. On top of the growth in revenue, with more age groups being able to get the vaccine and boosters getting approved, more and more will be produced and used. According to Forbes via the search engine Duckduckgo, Pfizer should expect $33.5 billion in COVID-19 vaccine revenue during 2021, an increase of previously estimated $26 billion based off of the second quarter reporting. The second quarter reports were also shocking in Pfizer's ability to mass distribute vaccines and booster shots, specifically over a billion doses. Also, according to CNBC via the same search engine, Pfizer expects many individuals to need a third booster dose in addition to the first two, which makes me believe that Pfizer's drastic increase in vaccine revenues are not going anywhere soon.

Most shockingly, although Pfizer is experiencing constant increase in revenues during COVID-19, the pharmaceutical company continues to raise prices for the medicine. When we changed our search to "Pfizer COVID profits" we were able to find another diverse set of articles and facts. Using the search engines Brave and Google, we found that Pfizer dominated the distribution of vaccines around the world. Some countries even signed contracts with Pfizer concerning distribution and production of their vaccines.

COVID-19 Medicine and Treatment

The top two results that are generated when searching "hydroxychloroquine covid studies" on Google are from governmental websites that suggest hydroxychloroquine is consistently effective in treating COVID-19 when provided early. These sites also suggested that no worse outcomes were found as a result of HCQ use, only positive ones. In contrast, the first results on google for ivermectin as a treatment for COVID-19 suggest that it can be harmful and is not at all effective in treating humans infected with COVID-19.

Drugs.com claims that hydroxychloroquine, an FDA approved drug used to treat malaria, rheumatoid arthritis and lupus, is ineffective and does not provide medical benefits for hospitalized patients. However, for people who are infected with Covid-19 and discover it in its early stages, hydroxychloroquine is more effective. It is important to note that different countries around the world have different medical beliefs and practices, combining and researching hydroxychloroquine with other medicines at different doses to find the best solution. Ivermectin is another substitute for hydroxychloroquine when considering medicines and remedies to combat COVID-19 without resulting in vaccination. Ivermectin is an anti-parasitic drug primarily for worm treatment, and msn.com claims that using Ivermectin for treatment has become politicized, and is still considered a controversial solution.

Using the search engine Brave, new articles that were not on the other search engines appeared. According to Cochrane, on the topic of whether hydroxychloroquine is useful in treating people with COVID-19 or in preventing infection in people who have been exposed to the virus, it stated that it did not reduce deaths and caused more unwanted effects. Hydroxychloroquine is a drug typically used for rheumatic disease and other autoimmune diseases. Therefore, some thought it would be a beneficial drug to prevent or treat patients from

COVID-19. The studies did not provide clear or strong results, and it was recommended that further research not be conducted. Additionally, the National Institute of Health claimed that patients treated in hospitals with hydroxychloroquine required longer hospitalization time, and were more likely to need ventilation.

The former Vice President of Pfizer Mike Yeadon claimed that early denial of hydroxychloroquine and ivermectin as an effective treatment of COVID-19 was intentional in an attempt to get the vaccine to market quicker. Yeadon made other bold claims, stating that data is not clear regarding the effectiveness of the vaccine. Yeadon claims that hydroxychloroquine is able to make the viral load in a person less likely to progress, and other treatments like ivermectin and zinc are possible effective solutions. The most interesting statement that Yeadon makes is that he believes the denial of these medicine's effectiveness on combating COVID-19 was a fraud scheme in order to make people more attracted and willing to take the vaccine. This denial in effectiveness would also lead to the vaccine reaching market earlier in desperation for an acceptable treatment. He stated that the system is pressurized, meaning journalists and other media outlets depicted a negative image of ivermectin and hydroxychloroquine in order to glorify the vaccine. Yeadon claims that "Ivermectin was working really well, and they were literally suppressing the manuscript, at journal level" (*The Palmer Foundation*).

This topic was difficult to find an exact answer on. There was not a lot of information regarding Pfizer's stance on competition products or other vaccine options. However, it is apparent that they do not believe their vaccine to be the only solution to the COVID-19 problem. They are working on their own antiviral treatments, one that is orally administered and another form that is administered intravenously.

Pfizer's Lobbying Efforts and Policy Shift

The lobbying efforts made by Pfizer has dramatically increased since 2019 due to COVID-19 as dozens of Pfizer has recently hired two new lobbying firms as of October first of this year in efforts to lobby on drug pricing as negotiations become heated. One of these firms include TheGROUP DC, a firm that has a former staffer to President Biden. The other newly employed firm is called Federal Health Policy Strategies, and the two firms, along with dozens of others, are currently lobbying to mitigate "Democrats' plans to have the government directly negotiate the prices for medicines" (Oprysko).

Pfizer has been able to increase their lobbying efforts due to their increased revenue and impact on a global level. In 2019, Pfizer had 77 lobbyists, which grew to 102 in 2020, their highest lobbyist amount since 2006. Already in 2021 they have announced 92 lobbyists. With the approved third booster dose of the vaccine and more age groups being able to get the vaccine, Pfizer has increased their overall lobbying budget, and we expect this to continue for the near future. They spent a large amount of time lobbying the Centers for Disease Control and Prevention and FDA since these two organizations had a large impact on producing and approving the vaccine.

The executive order declared by President Joe Biden on September 9, 2021, stated that all federal employees must be vaccinated against COVID-19. Specifically, "[e]ach agency shall implement, to the extent consistent with applicable law, a program to require COVID-19 vaccination for all of its Federal employees, with exceptions only as required by law" (Biden). In addition, the executive order demanded that all private-sector employers with 100 or more employees require either vaccination amongst employees or undergo weekly testing.

This is a very different policy from his statements made prior to being elected, telling Americans he would never implement a vaccine requirement.

The change in policy came after additional information regarding the status of the Pfizer vaccine and mutation of COVID-19. The requirement to get the vaccination stemmed from the FDA approval of the vaccine and the CDC determining the best way to slow the spread would be administering the vaccine to individuals.

Conclusion

One of the more shocking discoveries after researching the impact of COVID-19 on Pfizer's financial position and business operations is that shareholders saw an increase in earnings per share from 2019 to 2020 in a period where the stock market was struggling exponentially. Although it is obvious that Pfizer's vaccine revenues would increase in the present environment, it was surprising to see their net cash flows increase from 2019 to 2020.

The article on Mike Yeadon was interesting, considering his executive role at Pfizer, and he took a controversial stance on COVID treatments. Even though we were researching the similar topic regarding COVID-19 and Pfizer, we were able to find different information based on the search engine we were using. More specifically, the search engine "DuckDuckGo" was able to find information regarding Pfizer's stance on competing medicines. "Google" and "Brave" were unable to find relevant information on this topic, and "Google" tended to produce governmental sources more frequently than the other search engines. There were some similarities between the search engines that we used, but the main difference was the order in which sources were presented.

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Case 5

Professional Interview: John Jacobi

November 19, 2021

Although I visit him and his family every year for the holidays, I have always hesitated asking my uncle, John Jacobi, extensively about his background and career. Prior to my conversations with him this week, my knowledge of his professional history was limited to small talk around the Thanksgiving table about the current state of the oil and gas industry or his career in the NFL with the Philadelphia Eagles. Due to his soft-spoken personality and unmatched humility, I have not been able to acquire a great deal of information regarding John's unique upbringing and very successful career in the oil and gas industry. Thus, this particular case study served as an ideal opportunity to interview Uncle John. Following our conversation, my initial opinion on John's toughness and sternness was replaced with a new understanding of his humble character. I imagine that any individual having a conversation with John would share a similar experience.

One of the most revealing pieces of information from our conversation included the generational differences that John believes will certainly present a challenge to Gen Z. In other words, John has certainly recognized the weaker components of the current generation and how the ever changing world will be difficult to navigate. Before our conversation, I had never considered the patriotism that his generation upheld and how such pride in the United States has diminished over the years. In addition to his perception of my generation, I was fascinated by his unique upbringing consisting of dairy work and constant chores, which I had previously never asked him about. It was remarkable to hear how this type of upbringing ultimately contributed to his choice in career and his professional goals. Overall, I left our conversation with a newfound appreciation for the preceding generation, along with immense admiration for my uncle's hard work and dedication to his goals. Further, I was very grateful to receive such meaningful advice that my uncle has collected through his professional life.

After speaking with John about his childhood, or lack thereof, it was very telling where he developed his extreme work ethic. Growing up in North Central Texas in a small town called Electra with the Red River running through his backyard, John and his other ten siblings were immediately put to work in their family business as young children. Their large German family did dairy work as well as some oil mining, owned a grocery store and butcher shop closeby, and everyone played a part in the labor to maintain the family business. John explained how he was given a great deal of responsibility at a very young age because he "did not have much besides sports and work." For example, he learned how to operate a tractor for the first time as a seven-year-old and would milk cows starting at 4:30 in the morning before school and complete chores after school until bedtime. Because his life was largely centered around the family businesses and sports as a child, John was forced to grow up at a faster pace than the typical child, which he would later contribute to learning the most about himself. In his childhood, John was offered a job and was told to "figure it out," forcing him to take numerous chances without much guidance.

To no one's surprise, John went on to attend college at West Texas State (now West Texas A&M) with very little desire to do anything like his past. John pursued a pre-med degree in biology, while also playing on the football team. Following his undergraduate years, John had the opportunity to go to Philadelphia and play in the National Football League for the Eagles. Unfortunately, John's NFL career was cut short due to injury, and he was forced to make a decision of whether he wanted to go to medical school or return to the oil and gas industry. John decided to commit to the oil and gas industry in 1981 primarily because of his childhood experience and inherited knowledge about the field.

At a very young age, John learned the true meaning behind hard work and has continued to implement several of the lessons he learned throughout his childhood and career in the NFL in his role in the oil and gas industry. In 1981, John began his career after the NFL at Woolf & Magee Inc., a drilling, exploration, and production company. Ten years later in 1991, John co-founded Jacobi-Johnson Energy, Inc, an independent oil and gas producer where he served as the president focusing on acquisitions in Arkansas, Louisiana, Texas, and Gulf Coast Basins. Just seven years later in 1998, EXCO Resources, Inc. purchased Jacobi-Johnson Energy, Inc, "where Mr. Jacobi served as vice president of business development and marketing and led the acquisition efforts on transactions valued at approximately eight billion dollars" (Oasis Petroleum). In June of 2013, John co-founded Covey Park Energy, Inc. and served as its co-chief executive officer and board member, but the company was sold in July of 2019 to Comstock Resources where he served on its board of directors from July 2019 to October 2020. Currently, "John serves as the Chair of the Compensation Committee of the Board at Oasis Petroleum and as a member of the Nominating, Environmental, Social & Governance Committee," while simultaneously leading Javelin Energy Partners as CEO and President (Oasis Petroleum). The list goes on, as he also serves as interim CEO of Venado Oil & Gas, as well as on the Board of Directors of Pioneer Energy Services Corp., as Chair of the Audit committee since May of 2020. This information was easier to find on the Internet than it was to hear from John himself because of his humble background and personality, but the lessons he learned along the way were the most valuable lessons he had to offer me. When I asked John what important things he learned at each position in his career, John replied with the advice "do not be afraid to work." John made me aware that I would have challenges throughout my entire life, and the failures along the journey are not as important as the way you take on adversity and conquer

those failures. John applies the lessons he learned as a child about taking chances to his employees today, urging the younger generation to take on more responsibility and judge themselves not on their failures, but rather their immediate reaction to failures.

Throughout his incredibly successful career, the most challenging and difficult hurdle that John has had to overcome was the economy and making sure he had resources to provide for his family. Being in the oil and gas industry where you are producing a commodity that is heavily influenced on the current state of the economy, his biggest challenge throughout his career is balancing these demands.

It is hard to imagine John having any time for a life outside of his career, but somehow he finds a way. John and his wife Sarah raised three children named Jack, Olivia, and Susanna, and now is a grandfather to Susanna's two boys named Matthew and Charlie. Sarah and John currently live on a ranch in Murchison, Texas, about an hour southeast of Dallas where he commutes daily for work. On their ranch, Sarah and John raise, buy, and sell thoroughbred horses. John spends his little free time maintaining their ranch with his wife, as well as fly fishing whenever he is given the opportunity. John's work-life balance is very important to him, as he ensures that he has the time to support his children. More specifically, John and Sarah travel to watch their son-in-law compete professionally roping all around the West, most famously in Las Vegas at the annual National Finals Rodeo.

When I asked John for the piece of advice he could offer to me and my classmates, he shared a quote that he lives by and tells his employees frequently: "be willing to carry out the trash." In other words, when one secures a job, he/she will start at the bottom of the totem pole and will be challenged with the so-called "grunt work." He advised me that when this time comes, complete the assigned work sooner rather than later. Therefore, when one does not have

anything else to do, he/she may have the time on their hands to go out of their way to help others and be eager to make a difference and impact, regardless of position. He also explained that I am going through the motions in school right now, making sure that I make good decisions and the grades the get the job I desire, but that my employer out of college will have no expectations that I know how perform my job; he advised me to be patient in my first job and to learn as much as possible, and once I gain enough experience, I can begin to take more chances. I thought it was particularly interesting when he gave me the harsh reality that although he is in multiple positions of leadership in the oil and gas industry, I am not ready for his job title right now, and to remain patient.

John has had immense success throughout his life, from being CEO of multiple different companies, serving on multiple boards, and playing in the highest level of football in the world, yet these successes are not what John is most proud of. In fact, he expressed that he is very proud of the family he has raised and the people his children have become. Also, in terms of his career, he is most proud of the reputation he has built for himself. He told me that he has "a phenomenal reputation; not everyone likes me, but everyone respects me because I do what I say." I think this statement is very indicative of John's personality and the humility he carries himself with in every endeavor.

John seems to load himself with responsibilities, but I would actually consider him a simplistic person. When I asked him about the vacations he and his family like to take, he responded by saying that they do not really take extravagant vacations like one might assume. Instead, his favorite vacation is going to the Rocky Mountains in southern Wyoming where he escapes from his busy work schedule and relaxes with fly fishing and the beauty of nature. He

explained to me that he has been all around the world traveling for work purposes but is not enthusiastic about world travel for recreational purposes.

When I asked John about the greatest challenge for his generation as well as mine, his answer was very unique. He clarified that his generation was the “flower child generation” or the Baby Boomers, synonymous with peace and love. In his opinion, this “hippie” mindset was not good for generations to come because people lost the discipline and pride in the country that he adores. He explained that the biggest challenge for his generation as well as mine is to “claw back what we gave up,” meaning fighting to instill the discipline and pride in Americans that his generation sacrificed. According to my Uncle John, the largest challenge approaching my generation is the overwhelming ability of social media to plague the minds of Gen-Z, which I can certainly relate to.

Case 6

Target Corporation: Company Overview

February 9, 2022

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Our task for the week was to learn as much about our company, Target, and discover what its strengths and weaknesses are. In line with this objective, we were also tasked with understanding the corporate structure, organizational strategies, trending news, and the management's plan for the future of the company.

Target's mission statement and purpose are "to help all families discover the joys of everyday life." This imperative drives its strategy to deliver the best possible experience to customers, and it pays off as Target is consistently considered a top-tier retail brand. In a recent survey, 37% of shoppers named Target as its favorite store, only behind Amazon and Walmart.[1] In the same survey, Target was also mentioned as the third best retailer concerning return policy and price matching.

As of late, Target has especially been committed to price in the face of inflation. While many companies opt to increase pricing and enjoy larger margins, Target has decided to take on the extra costs of inflation and pass savings to customers.[2] In its most recent earnings report on November 17, Target reported a seventy-basis point drop in operating income margin for the quarter compared to the third quarter of 2020.[3] Its gross margin also dropped from 30.6% to 28.0%, likewise due to higher "higher merchandise and freight costs, increased inventory shrinks, and increased supply chain costs." CEO Brian Cornell responded to the call to the shrinking margins by saying, "We're investing to maintain and continue to build market share positions." Target has decided to seize this opportunity of higher inflation to attract new customers with lower prices, and it has worked. Comparable sales to the previous quarter grew 12.7%, which indicates more customers are shopping at Target. By committing to low prices and a quality experience, Target will be able to continue this trend for many quarters to come.

1 https://chainstoreage.com/walmart-amazon-and-target-tops-shopping-experience-according-survey
2 https://www.businessinsider.com/target-bucks-trend-of-companies-padding-profits-raising-prices-2021-11
3 https://corporate.target.com/press/releases/2021/11/Target-Corporation-Reports-Third-Quarter-Earnings

More recently, many consumers have been more conscious about purchasing with companies that align with sustainability. Target has noticed and launched a new initiative, "Target Forward," to drive good change that "positively impacts both people and the planet."[4] Not only is it emphasizing this goal of sustainability and corporate governance, but it is acting on it.

In terms of sustainability, although Target is only the 116th largest publicly traded company by market cap, it is the eighth largest corporate purchaser of clean energy.[5] Target hopes to reach net-zero emissions and net-zero waste by 2040. Although this goal is far away, Target has drawn much praise from both consumers and investors as a leader in sustainability. It is nearing "50% of electricity from renewable sources" as well as creating "circular design principles" with its owned in-store brands.

Target is also strengthening its brand by committing to its employees. As a leader in corporate governance, Target has recently raised its minimum wage to $15 for all employees. More recently, in August 2021, Target has announced it would offer debt-free education. [6] Additionally, Target improves the look of its brand by instilling many corporate partnerships. It has been partners with Starbucks since 1999 and today has over 1,300 Starbucks in-store across the country.[7] CVS Health also acquired Target's 1,660 pharmacies in-store nationwide.[8] These commitments have paid off, with employee retention among the highest in the industry.

Within a retailer, the most important facet is the supply chain. In Target's case, it has been heavily investing to meet fulfillment dates and provide quality service to its customers. In

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4 https://corporate.target.com/press/releases/2021/06/target-forward

5https://www.marketwatch.com/story/amazon-target-and-other-corporate-giants-pace-record-clean-energy-buying-and-show-little-sign-of-stopping-11643659102

6 https://corporate.target.com/press/releases/2021/08/target-launching-debt-free-education-assistance-pr

7 https://corporate.target.com/article/2016/04/howard-schultz-starbucks

8https://www.cvshealth.com/newsroom/press-releases/cvs-health-and-target-sign-agreement-cvs-health-acquire-rebrand-and-operate#:~:text=Through%20this%20agreement%2C%20CVS%20Health,stores%20that%20offer%20pharmacy%20services.

September of 2021, Target announced it would be adding 30,000 supply chain jobs.[9] This addition is on top of an ever-growing allocation to the supply chain, which included adding two new distribution centers and four new sortation centers in 2021.[10] In 2022, Target expects to add an additional two distribution centers. Earlier in 2021, Target also provided a key update on its private label brands' performance in 2020. Ten brands have hit the $1 billion mark in annual revenue. This metric is a key point for the future of Target as private brands command higher margins and allow for more control in the supply chain.

Some of Target's core weaknesses include its lack of global reach as well as its higher prices compared to major competitors such as Walmart. While Target operates over eighteen hundred locations in the United States, it seems to have missed the mark regarding international expansion. A prime example of this failure was its attempt to expand into Canada. After less than a two-year stint, CEO Brian Cornell opted to close all Canadian stores, stating that it would not be profitable until 2021. His plan to focus on smaller stores in the United States instead of the Canadian market ended with his idea to simply "be cool again."[11] Target essentially rushed its expansion and, with a slower release of stores, most likely could have made it in the neighboring country.

Another core weakness Target has is its more costly merchandise compared to its competitors, specifically Walmart. Walmart's business model focuses on the lowest-priced items, while Target instead focuses on profit margin. Even though Walmart is much larger than Target, Target proves to be more profitable. While this is a strength in the eyes of investors, it can be seen as a weakness in the eyes of customers.

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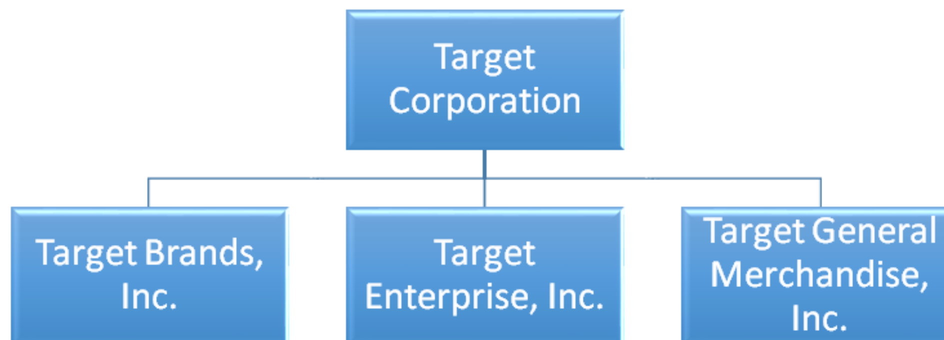
9 https://corporate.target.com/article/2021/09/supply-chain-hiring
10 https://corporate.target.com/article/2021/10/supply-chain-update
11 https://hbr.org/2015/01/why-targets-canadian-expansion-failed



Target has three significant subsidiaries. These subsidiaries are Target Brands, Inc.; Target Enterprise, Inc.; and Target General Merchandise, Inc.[12] Target Brands is tasked with managing Target's branding and the marketing of its private-label brands. Target Enterprise and Target General Merchandise generally serve roles in fulfilling the Target Corporation's business operations and objectives. While these three subsidiaries are the most significant, Target also owns an independent subsidiary, Shipt, Inc. This company was acquired by Target in 2018 for $550 million; Shipt specializes in the home delivery of groceries, domestic items, and electronics.[13] However, unlike the more significant, primary subsidiaries of Target, Shipt is much smaller in size, has much lower revenue, and operates on behalf of businesses besides Target, such as CVS, Kroger, and Winn-Dixie. Overall, Target's corporate structure and its relation to its various subsidiaries are relatively simple.

Target's strategic initiatives included prioritizing renovation of existing stores' locations rather than creating new ones in 2020. More specifically, Target remodeled 132 stores and opened 30 new stores in 2020, which consisted of 29 small-format stores in key urban markets and on college campuses.[14] With the focus on key urban markets and college campuses, it

12 https://www.sec.gov/Archives/edgar/data/27419/000002741921000010/tgt-20210130xexhibit21.htm
13 https://www.cnbc.com/2018/08/10/how-bill-smith-built-shipt-and-sold-it-to-target-for-550-million.html
14https://corporate.target.com/annual-reports/2020/10-K/10-K-Part-II/Item-7-Management-s-Discussion-and-Analysis-of-Fin

appears as if Target is shifting part of its business strategy away from operating in the traditional, large-scale retail store format we are used to seeing. However, Target did not meet renovation and expansion expectations of 300 and 36 stores, respectively; this shortcoming is largely due to the decrease in capital expenditures in 2020 from the prior year because of COVID-19.

With respect to capital allocation priorities, Target's management believes that after-tax return on invested capital (ROIC) from continuing operations is the most meaningful measure of capital allocation effectiveness over time. For the fiscal year ending January 30, 2021, Target's return on invested capital was 23.5%, an increase of 7.5% from the previous fiscal year.[14] When COVID-19 began impacting America in the first quarter of 2020, Target's management issued $2.5 billion of 5-year and 10-year notes to increase cash on hand during the unprecedented times. Not only did Target issue these notes, but it entered into a $900 million 364-day credit facility.[14] This $900 million increase at the beginning of 2020 left Target with $3.4 billion in undrawn committed credit facilities, which was a surplus amount of additional liquidity for Target considering its exceptional operating performance in the following quarters. In October 2020, Target repurchased $1.77 billion of debt before its maturity at a market rate of $2.25 billion and subsequently terminated the 364-day credit facility.[14]

The successful operating performance in 2020 is indicated by $10.5 billion of operating cash flow provided by continuing operations, a $3.4 billion increase from 2019.[14] Other key metrics in 2020 include growing sales by more than $15 billion and record-high adjusted earnings per share of $9.42.[14] While facing a pandemic that most people thought would hinder retail stores' performance, Target was able to adapt pick-up and drive-up services that saw more than 600% growth in 2020.[14]

In reading recent news, financial statements, and company strategy, it appears that Target's positives outweigh the negatives. Regarding its industry, Target is a leader in sustainability and supply chain as well as delivering on both customer service and employee retention. Target has received a deluge of praise from both investors and customers. This boost in the public image has led to a consistent growth in sales and income that is high in regard to its size. If Target continues to hit its goals and meet the expectations of both management and investors, it has the potential to seize market share.

Case 7

Target Corporation: Audit Perspective

February 16, 2022

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Our task for the week was to choose three of Target's riskiest accounts and research them thoroughly. We investigated the risks associated with the inventory, sales revenue, and selling, general, and administrative expenses accounts and the correlating internal controls that could help mitigate risk and misstatement within each account. We then explored substantive tests auditors may conduct to gather evidence that each account is not misstated. We also inquired how we could use data analytics to further enhance reliability and efficiency in the testing of the balances of each account.

The first risky account we are looking at is Target's inventory account. Target has a broad range of merchandise categories, including apparel, accessories, home décor, electronics, toys, seasonal offerings, food, and others. Having a wide range of products and a high volume of inventory makes Target's inventory account of particular interest to auditors. Target states that "the vast majority of our inventory is accounted for under the retail inventory accounting method using the last-in, first-out method (LIFO)."[1] The company values inventory at the lower of LIFO cost or market. The inherent risk regarding the inventory account is the susceptibility of material misstatement, and Target's nature as a merchandising corporation of great magnitude makes its inventory account particularly risky.

Target reported on its balance sheet as of January 30, 2021, ending inventory of $10.653 billion. This balance, compared to the beginning inventory balance of $8.992 billion, shows an increase of $1.661 billion throughout the accounting period, "reflecting efforts to align inventory with sales trends." Social factors like the COVID-19 pandemic, recent supply chain problems, and periodic labor disputes impacting U.S ports have "caused [Target] to make alternative arrangements to continue the flow of inventory," which could have impacted the cost of

1 https://www.sec.gov/Archives/edgar/data/27419/000002741919000006/tgt-20190202x10k.htm

inventory.[2] With inventory costs of such large values at varying prices due to current social factors, it would be possible for Target to overstate or understate the inventory balance unintentionally. There is also the risk of management intentionally manipulating the inventory to reflect their desired earnings for annual goals. If the inventory account is understated, the cost of goods sold would be overstated; therefore, expenses would be overstated. This overstatement would cause net income to be understated, thus resulting in a lower tax bill for the company. An understatement would lead to an opposite circumstance where the company would overstate net income by understating expenses. In the case of understatement of inventory, it would appear that management hit their annual goals, even though that is not accurate.

As auditors, we suggested a few substantive tests to ensure inventory is not misstated. One is tracking all inventory via Radio Frequency Identification, otherwise known as RFID, or a barcode. With RFID and barcodes, auditors and management could track inventory from vendor to purchase, ensuring proper accounting. This test is particularly applicable for Target, considering they sell various products and have over three hundred distribution centers and stores.

Another internal control would be to conduct regular physical inventory counts. While this is less practical for a merchandising company of such scale and product mix as Target than for a boutique retail store, it can significantly reduce the risk of material misstatement. There is a particular risk in the inventory account on Target's 2020 balance sheet regarding this internal control, as Target disclosed that COVID-19 has "suspend[ed] physical inventory counts at our stores."[3] It is crucial that as soon as the pandemic subsides, Target resumes physical inventory counts and adjusts the inventory account as needed.

2 https://www.sec.gov/Archives/edgar/data/27419/000002741919000006/tgt-20190202x10k.htm
3 https://www.sec.gov/Archives/edgar/data/27419/000002741919000006/tgt-20190202x10k.htm

Our recommendation for a data analytics tool to test inventory would be to create a real-time map that reflects the inventory supply chain. This hypothetical map would also store the data from previous days to see how the inventory is changing hands across the United States. When an unusual amount of inventory is either sold or transferred, the map could highlight the area. The associated management team would be notified and recommended to perform a check. This data visualization tool will allow visually appealing and instantaneous digital inventory management that RFID and physical counts cannot.

We could have robotic process automation, or RPA, to automatically extract information from invoices and receipts for inventory purchases from vendors. The RPA can then send the order details to Target's ERP and match it up with the correct location with this information extracted. Target's management has disclosed their role in improving inventory management by making "significant investments in technology and selective acquisitions to improve guest experiences across multiple channels and improve the speed, accuracy, and cost-efficiency of our supply chain and inventory management systems."[4]

Another risky account we reviewed is sales revenue. This account's risks derive primarily from the risk of employee and customer theft, as retail fraud is generally committed at the point of sale. There is also the risk of employees undercharging or overcharging customers for their purchases to profit off the record. This inherent risk can be mitigated by having sales terminals that depict each item's cost during the transaction. Additionally, sales often serve as a performance metric for a vast portion of those employed by the company, particularly departments directly involved in the sale of goods. Because of this account's usage as a performance metric and evaluation tool, companies often establish incentives to ensure that employees and managers adequately work toward sales growth. These incentives usually assume

4 https://www.sec.gov/Archives/edgar/data/27419/000002741919000006/tgt-20190202x10k.htm

the form of bonuses for higher-level employees and management. Because of this type of personalized incentive to see sales increase across the board, revenue may be subject to manipulation to obtain these incentives in a manner that does not follow generally accepted accounting principles (GAAP).

In practice, companies, especially larger corporations such as Target, implement various internal controls to prevent material misstatement and fraudulent activity involving sales revenue. Examples of internal controls are the segregation of duties, especially regarding the transaction, price authorization, and recording of these transactions. Additionally, there would have to be an extensive paper trail, whether physical or electronic, verifying the details of the transactions, such as price, quantity, and the delivery of goods to the customer. This paper trail is much more efficient with computerized inventory tracking and related transactions. Combined with separation of duties, these documents and records would be much safer from fraud and misstatement, considering that an employee would find it difficult to falsify transaction records unilaterally.

Verifying and evaluating the accuracy of sales revenue would come down to verifying the related records to the transaction and identifying any potential discrepancies between them. For instance, the company could discover unauthorized transactions, or perhaps, one could discover that the goods sold according to transaction details are not the same as those taken from inventory. The latter situation, and auditing sales revenue in general, involves verifying inventory. A more straightforward test includes recording sales in the proper periods.

Analytical data procedures could assist the auditing process in various ways. It is unrealistic to verify every transaction and its details in transaction records, especially for a larger corporation like Target. A solution to this problem is to take a statistical, random sample of

transactions, either by location or nationwide, and verify the details. Additionally, to detect any sales revenue or inventory data anomalies, all sales revenue data could be graphically compared to inventory amounts, period by period.

We then investigated the account Selling, General, and Administrative Expenses and its risk factor. Included in Target's SG&A account is compensation and benefit costs, occupancy and operating costs of facilities, advertising, pre-open and exit costs of stores and other facilities, credit cards servicing expenses, costs associated with accepting third-party bank-issued payment cards, litigation and defense costs, insurance recoveries, and other administrative costs. The total cost of SG&A for the fiscal year ended January 30, 2020, was $18.5 billion. As a percentage of sales, this reflects a rate of 19.9 percent in 2020 compared to a rate of 20.8 percent in the previous year. [5]Incremental team member pay and benefits, as well as investments to protect the health and safety of guests, represent approximately $1.4 billion of the total $2.4 billion increase in SG&A expenses for the year. We found this account of particular interest to auditors because of the multitude of other accounts a misstatement could collaterally affect similarly to the inventory account previously discussed. If SG&A costs are overstated, this will lead to an understatement of net income. If SG&A costs are understated, the opposite would be true, and the company would overstate net income for the year. Both scenarios could influence fraudulent activity by individuals looking to pay fewer taxes or hit annual goals.

An internal control that could mitigate the misstatement of the SG&A account is to develop a finely tuned allocation method that will give more precise measures of the SG&A costs incurred by each of a company's product lines. This improved allocation method would allow each component to be broken down into more detailed categories, showing investors and managers which aspects of SG&A are too costly. Another internal control that the company

5 https://www.sec.gov/Archives/edgar/data/27419/000002741919000006/tgt-20190202x10k.htm

could implement for SG&A would be to compare the fair valuation of assets under Property, Plant, and Equipment with those among the industry. This process is relevant because impairment costs for PP&E are classified under SG&A. An overstatement of the fair value of PP&E would mislead investors of the value of the fixed assets Target holds. It would also cause an understatement of impairment costs and an overstatement of net income. Management could take advantage of these deficiencies if they are looking to hit goals and bonus requirements.

A substantive test the auditor can run to ensure the account is not misstated is cut-off testing to ensure that the expenses are recorded in the correct period. Additionally, auditors can confirm balances with outside parties and search for unusual expenses that do not follow the company's historical pattern.

A way to use data analytics to assist the audit process for SG&A is by utilizing robotic processes to analyze an employee's hours and track unusual timings. Also, auditors could use robotic processes to analyze management company card spending to notify if there are irregular charges on Target's funds. Regarding PP&E and its impairment, we could get a robot to digitally track the sale of similar properties to Target's holdings. With this data, we could visualize fixed assets that may be understated or overstated.

Case 8

Target Corporation: Tax Perspective

February 23, 2022

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Our task for the week is to develop two tax strategy recommendations for Target Corp. to implement to minimize their legal cash payments, and to show the effects of those strategies on the overall tax liability.

Our first tax strategy is to utilize the Work Opportunity Tax Credit, otherwise known as WOTC. This tax credit provides a tax credit based on a percentage of wages paid to particular groups who have historically faced barriers to employment. Target, considering its strong employee reputation and its plans for expansion, is in a prime position to take advantage of this tax credit to lessen the impact of these plans when implemented. With around 400,000 total employees in the United States and about two thousand stores and counting, the average number of employees per store is 200 (ignoring the variation in store size). Target's plan is to open 30 to 40 stores each year as part of their expansion strategy according to the MD&A section of the 10K financial report. Taking the median of that range, we can then assume there will be an average of 35 stores opened per year at 200 employees per store, a grand total of 7000 new Target employees per year.

The Work Opportunity Tax Credit applies to ex-felons, SNAP Recipients, Supplemental Security Income recipients, Long-Term Unemployment recipients, Summer Youth employees, Qualified Veterans, and some other groups. To put a number to these populations, in the United States, there are 42 million SNAP recipients, 7 million Ex-Felons, 22.5 million youth employees, 69.1 million SSI recipients, 2.2 million Long-Term Unemployment Recipients, and 1.7 million disabled veterans. The total of U.S citizens that can be included in WOTC is about 144.5 million people, but we assume a large overlap of roughly 80 million. The total proportion of applicable

employees under the WOTC is 64.5 million out of a total United States population of 330 million, which is roughly 20 percent.

A 20 percent target of WOTC-eligible employees in Target's 35 annual new stores would equate to 35 stores multiplied by 20 percent of 200 employees equates to 1,400 new employees under the WOTC tax credit. As well as new store openings, Target has committed to hire 100,000 new employees to existing stores, which includes 30,000 new supply chain roles. This 100,000-job figure applied to a 20 percent rate of WOTC-eligible workers in the economy gives 20,000 applicable hires. The total number of WOTC-eligible hires adds up to 21,400 per annum. The WOTC tax credit gives a credit of 40 percent of wages paid up to $6,000, which can be up to $24,000 for specific groups. This amounts to $2,400 per employee. Multiplied by 21,400 employees gives a tax credit of approximately $51.36 million which is roughly equivalent to 1 percent of taxable income. This is a significant amount that could be substantially underutilized, making WOTC an optimal tax strategy Target can pursue.

WITHOUT WOTC	
Beginning # of employees	400,000
Total # of stores	2,000
Avg. # of employees per store	200

WITH WOTC	
Avg. # of employees per store	200
Estimated new stores per year	35
Estimated new employees per year from new stores	7,000

Total U.S Population (in millions)	330
Total Applicable Employees Under WOTC	64.5

WOTC (in millions)	
SNAP Recipients	42
Ex-Felons	7
Youth Employees	22.5
SSI recipients	69.1
Long-Term Unemployment Recipients	2.2
Disabled Veterans	1.7
Total Applicants Qualified Under WORC	144.5
LESS: Overlap	80
Total applicable Employees Under WOTC	64.5

Putting this tax bill reduction into context, prior to any expansion, Target's 2020 pre-tax income from continuing operations was $5.546 billion with a provision for income tax expense of $1.178 billion, net of deferred income tax expenses, equating to an effective total tax rate of

21.24 percent. These figures translate to a 2020 net income of $4.368 billion. As expansion of this nature has been officially planned by Target, utilizing the WOTC could serve to lessen the decrease in net income because of these expansions. With 2020's financial report serving as a base, we can estimate the impact of these expansions on net income annually. For instance, assuming these expansions were fully implemented during the 2020 fiscal year, sales revenue would increase approximately by $1.7 billion, based on the assumption that each store of the new 35 locations would provide roughly $48 million in sales revenue on average. Additionally, the cost of sales and selling, general and administrative expenses would increase by $1.2 billion and $900 million, respectively, based on the average cost of sales per location being approximately $34.3 million and the average selling, general and administrative expense per employee being $41,846, excluding advertising expenses.

New Net Income Calculations (Implementing WOTC)			
2020 Pre-Tax Income from Continuing Operations			$ 5,546,000,000.00
	Additional Sales Revenue	1,679,127,726.00	
	Additional Cost of Sales	(1,202,593,458.00)	
	Additional Selling, General, and Administrative Expense	(895,503,667.00)	
Reduction of Pre-Tax Income from Continuing Operations			(418,969,399.00)
Provisional Pre-Tax Income from Continuing Operations			5,127,030,601.00
	Pre-WOTC Provision for Income Taxes (net of deferred income taxes)	(1,089,008,664.00)	
	WOTC Applied	51,360,000.00	
Total Income Tax Expense			(1,037,648,664.00)
Net Income			**4,089,381,937.00**

New Net Income Calculations (No WOTC)			
2020 Pre-Tax Income from Continuing Operations			$ 5,546,000,000.00
	Additional Sales Revenue	1,679,127,726.00	
	Additional Cost of Sales	(1,202,593,458.00)	
	Additional Selling, General, and Administrative Expense	(895,503,667.00)	
Reduction of Pre-Tax Income from Continuing Operations			(418,969,399.00)
Provisional Pre-Tax Income from Continuing Operations			5,127,030,601.00
Income Tax Expense			(1,089,008,664.00)
Net Income			**4,038,021,937.00**

Therefore, before the use of WOTC and after expansion, pre-tax income would be $5.127 billion. Assuming a similar effective tax rate, net of deferred income tax expenses, of 21.24 percent, Target's hypothetical tax liability would be $1.089 billion. Without the implementation of the hiring plan and the WOTC, the resulting net income would be $4.038 billion, or in other terms, this expansion would result in a $330 million reduction in net income. However, if the expansion primarily focuses on hiring WOTC-eligible employees under previous assumptions, $51.36 million in tax credits could be applied to this tax bill to offset the reduction in net income from the expansion, resulting in savings of nearly 16 percent of the anticipated post-tax cost of expansion. This $51.36 million in savings could be used through every fiscal year until December 31, 2025, when the tax credit expires; of course, this specific figure in savings will remain the same approximately if expansion occurs at a very similar rate, but the math above would require necessary adjustments.

Our second tax strategy we would enact involves using more renewable energy tactics. Target made a statement in 2019 "committing to source 100 percent of our electricity from renewable sources by 2030," with the initial checkpoint for this goal being sourcing 60 percent of electricity through renewable sources by 2025. Our tax strategy would allow Target to make bigger strides towards this goal. First, through implementing the Federal Investment Tax Credit for Commercial Solar Photovoltaics. The credit provides 26 percent for systems commencing construction between 2020 and 2022, 22 percent in 2023, and 10 percent in 2024 or after.

Solar power plays an important role in Target's realization of these renewable energy goals. The company makes investments and purchases with solar farms for electricity. However, the most promising option for investment, regarding tax credits and deductions, is rooftop solar panels. Target estimates that 556,000 megawatt hours is roughly enough energy to completely

power 280 of its stores annually. If one assumes that there are five hours per day per year for solar panels to have high-quality exposure to sunlight, these 280 stores would require more than 305 megawatts of solar-derived power to fully meet their energy needs.

However, if Target was to overshoot their renewable energy goals and, additionally, attempt to focus on their own production, the company could attempt to install enough rooftop solar panels at all its stores to cover upwards of 50 percent of the company's energy needs. Using the prior assumptions from Target's estimates, each of the 280 stores, on average, consume approximately 1.986 megawatt hours of energy annually. The kilowattage of the hypothetical solar power system of the average store can be derived from this information once annual hours of optimal sunlight exposure and panel efficiency effects are accounted for, 1,825 hours and approximately 33 percent more solar panels to account for environmental fluctuations. With these figures, each Target location would require 725 kilowatts of solar power on average to meet half of all energy needs. Based on the costs of solar power kits to meet these, the purchase and installation of these systems would be approximately $900,000 per store. Considering that approximately 500 stores already approximately fulfill the solar power target or would require smaller investments to upgrade, this solar power plan would overall cost approximately $1.283 billion. These investments would be divided into four sections in the years 2022, 2023, and 2024, resulting in an annual average investment of about $321 million per section.

The credit is given before the solar power systems are in use if the construction can be proved to be at least five percent toward completion. Therefore, during construction and prior to completion of the system, the credit can still be granted. For this reason, at this rate, this credit could be claimed on any investment made in 2022 for a tax credit of 26 percent of the total of direct and indirect costs associated with the purchase and installation of these systems.

Furthermore, two investments would technically occur in 2023, the second one being included toward the end of the year to obtain a 22 percent tax credit instead of 10 percent. Then, in 2024 the fourth investment would be made for a 10 percent tax credit. These investments would result in a decrease in pre-tax operating income of $321 million in 2022, $642 million during 2023, and $321 million in 2024. However, these expenditures would be offset by tax credit amounts of $83.4 million in 2022, $141.2 million in 2023, and $32.1 million in 2024.

Additionally, upon the completion of the installation of these systems, Target would be enabled by this tax credit to deduct bonus depreciation from the depreciable base of these investments, with the depreciable base having been reduced by half of the percentage rate for the tax credit; for instance, the depreciable base for the investments in started in 2022 would be $279.1 million. Furthermore, in 2023, these bases would be $571 million total, and in 2024, the base would be $304.8 million. If these installations are completed by December 31, 2025, based on these depreciation bases, Target can deduct 40 percent of these base amounts from their income in the year these systems begin functioning.

It is reasonable to assume that 2022 installation would not be completed until 2023, and the first 2023 installation would presumably be completed the same year. The second 2023 installation would be completed in 2024, and the 2024 installation would be completed in 2025. This course of events would result in pre-tax deductions of $111.6 million in depreciation expense for 2022 installations and $114.2 million for the first 2023 installation for the 2023 fiscal year. In 2024, a bonus depreciation expense of $114.2 million for the second 2023 installation would be deducted from pre-tax income. Finally, in 2025, $121.9 million in depreciation expense would be deducted as well for the 2024 installation. This would be followed by the straight-line depreciation used normally by Target over the course of their

determined lifespans. Overall, the financial benefits are added to by the various smaller and numerous incentives provided by states and cities for investing in solar energy production and, most importantly, reducing the overall electric bill of the corporation, perhaps even allowing the company to profit if they ever produce a surplus.

In total, our two tax strategies that we are proposing to Target, Inc. serve to lessen the tax liability and cost of the company's official projects for the future. While net income is not higher per se, by investing in the customers of the company or its aspirations for rooftop solar in efforts to maximize sustainability, the company can find itself in a substantially better financial position at most, and at least reduce the effective tax rate in accordance with planned expenditures.

Case 9

Target Corporation: Advisory Perspective

February 23, 2022

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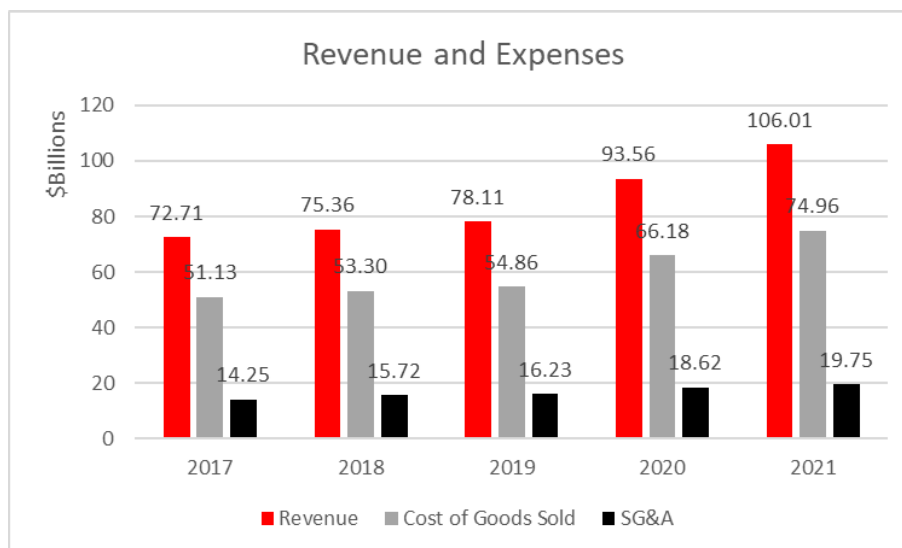
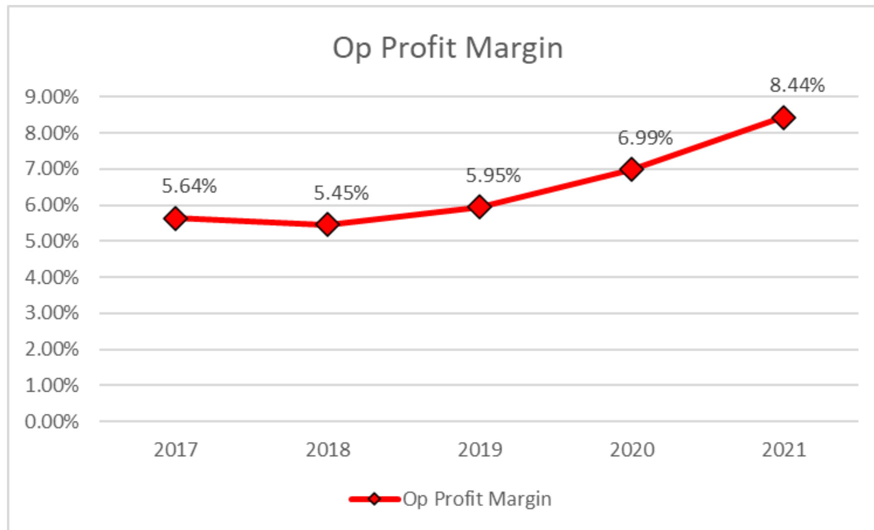
Our task for the week was to look at the strategy Target pursues and compare it to their financials over the past five years. We were able to see the trends in values and then consider the corporation's two most significant threats. After doing so, we looked at action plans for the different threats to combat them in future years and calculated how Target's trends in financials would change due to our plan. Instantly, we discovered the boom Target has experienced in recent years, increasing their profit margin and return on assets immensely. A big reason for these trends comes from their collaboration with partner brands, allowing them to increase their profit margin by 1.5 percent in one year. Through this case, we learned a lot about Target's strengths and weaknesses through their financials and how countering their threats may change their numbers in years to come.

Target pursues the strategy of customer experience. The corporation puts much effort into connecting with customers and making it simple to engage with the company. These tactics emphasize opening smaller stores with the same experience, allowing customers to have more convenience. Along with convenience also comes the recent implementation of drive-up pick-up, where customers do not even have to leave their cars to shop at Target. Another point of emphasis that Target pursues to deliver a quality customer experience is delivering quality brands familiar to customers. Target's partner brands include Ulta Beauty, Disney, Levi's, and Apple. These brands are likewise known for their quality of both products and customer experience. In 2021, Target opened 100 Ulta Beauty locations within their stores, with plans to open 800 more soon.[1] If Target can continue to partner with high-quality brands to emphasize their superior experience, they will be able to command more traffic both in-store and online.

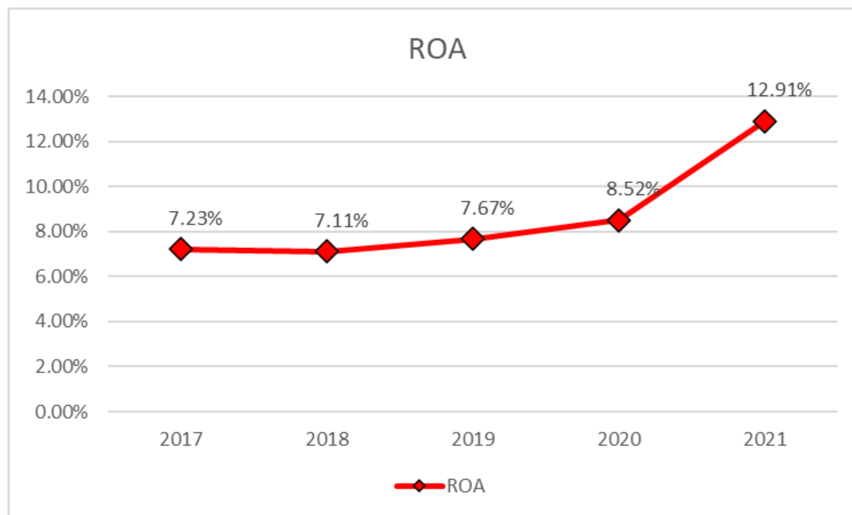
1 https://corporate.target.com/press/releases/2022/03/Target-Announces-Investments-to-Drive-Long-term-Gr

In reviewing Target's core financials, we immediately notice a significant expansion in revenue coinciding with an increase in expenses. These growing expenses are not worrisome as SG&A has decreased as a percentage relative to sales, and Cost of Goods Sold has stayed within 50 basis points as a percentage relative to sales. This growing revenue supports Target's idea of going above and beyond in delivering a great customer experience. Customers have enjoyed what Target offers, and it shows the same store and online sales growing fast in the last few years. Revenue is up 45.8 percent in only five years. This rate is unprecedented growth for a company as large as Target, and it emphasizes Target's strategy.





One trend we observed that stuck out was the massive expansion in Operating Profit Margin. Operating profit margin a low of 5.45 percent in the fiscal year of 2018 to a new high of 8.44 percent in the fiscal year of 2021. This detail represents a growth rate of 54.86 percent over only three years. This overall growth supports Target's strategy of delivering the best customer experience. By delivering a great customer experience, whether it be through in-store, customer pickup, or online shopping, Target can demand higher margins.



Another positive trend we located was the significant expansion in ROA. This expansion coincides with the expansion of the operating profit margin. Not only is Target delivering a better experience, thus able to demand higher margins, but they are also creating more efficiencies of scale from various segments.

Two significant threats facing Target are those of market uncertainties in the form of high inflation rates and a potential long-term gradual shift of customers toward online shopping, as opposed to shopping in-person in brick-and-mortar stores. These threats have originated from the economic conditions arising from the COVID-19 pandemic, with rapid inflation in the wake of economic stimulus by the U.S. Federal Government and the shift toward online shopping resulting from the initial quarantines and lockdowns at the beginning of the pandemic.

In the initial stages of rapid inflation, Target has continually resisted the corporate trend of padding its profit margin during this period of financial stress. While important metrics may not be falling, they are losing real value as inflation rises. Target has resisted calls to offset this loss in profit in the name of the customer experience, as shareholders call for price hikes.[2] However, this strategy may not be the optimal solution to an increasingly apparent issue facing the company in the short and long term.

Regarding the ongoing rapid inflation, Target should attempt to foster growth in the sales of the products of its private-label brands. Since these brands are directly owned and produced by Target, the manufacturing costs of these goods are lower. These lower costs indicate that Target's private-label items have higher profit margins than other items sold. Therefore, the company's profit margin could see potential growth or at least the maintenance of its recently heightened profit margins. By investing slightly more in efforts to push these products under the

2 https://www.businessinsider.com/target-bucks-trend-of-companies-padding-profits-raising-prices-2021-11

auspices of Cost of Sales or Cost of Goods Sold, such as advertising or surveying customers, Target could meet this suggested goal. Furthermore, this could help combat the effects of inflation on the real profit margin.

Target can keep commanding eight to 8.5 percent operating profit margins by investing more into owned brands. Suppose Target can keep up an eight and a half percent operating profit margin by creating efficiencies and more private label brands. In that case, they could potentially see a massive windfall on the bottom line. A margin of eight and a half percent is roughly two percent above their historical average, a tremendous expansion. A two percent expansion on the operating margin on revenues of $100 billion per year equates to $2 billion in Net Operating Profit. Assuming a low base of constant revenue growth, this equates to an additional $10 billion in operating profit over the next five years.

Additionally, when the COVID-19 pandemic began, consumers were forced to stay home and not frequent businesses, severely impacting the business of brick-and-mortar stores and consumption patterns. As time progressed, consumers' preferences have steadily shifted toward online shopping, even after businesses opened again. Because of this shift, Target cannot as adequately compete with some other competitors, as Target caters to the customer experience in their stores. Currently, Target's higher pricing in a purely online atmosphere results in failures to compete with Walmart or Amazon.

However, Target could address this problem. The recommended course would be to invest more heavily in the same-day pick-up and delivery aspects of Target's sales. This strategy could also incorporate special online deals, such as the occasional coupon or promotional code. In this manner, Target could shift customers toward the online marketplace and build up its already existing same-day delivery and pick-up system to make the process as convenient as

possible. Generally speaking, this would result in increased sales or at least being more able to compete with larger, more-established online retailers.

As of Q4, 2021, digital sales accounted for 19 percent of overall sales.[3] In 2020, digital sales grew by 145 percent compared to 7.2 percent in-store due to the COVID lockdowns. 50 percent of this digital sales growth was driven by same-day delivery and pick up. In 2021, this growth returned to normal, but both growth rates were still high. Comparable digital sales grew by 21 percent, while comparable-store sales saw 11 percent growth. Since 2019, Target has seen an increase in revenue of 14 billion dollars from in-store sales and 13 billion from digital originated sales. Digital-only makes up one-fifth of sales yet accounts for an equal amount of revenue growth; thus, digital sales are growing at four times in-store over the last three years. By investing in digital and pick-up, we can anticipate a conservative estimate of digital sales growing at two times that of in-store sales over the next five years. We assume a five percent yearly growth in same-store sales, thus a 10 percent digital growth and an overall growth of six percent yearly (Scenario 1). The alternative is the digital growth rate equivalent to a five percent in-store growth rate (Scenario 2). Over five years, a digital sales rate of two times in-store (Scenario 1) equates to a total difference of five billion dollars compared to a digital rate equal to the in-store rate (Scenario 2). At the end of the five-year projection, digital makes up 30.1 percent of total sales in Scenario 1 compared to 28.7 percent of sales in Scenario 2.

Overall, if Target focuses on expanding their digital originated sales in conjunction with their private label brands, they can create positive windfalls in revenue and net profit. To execute this plan, Target must stick to its strategy of delivering the best customer experience in the industry.

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3 https://investors.target.com/static-files/b46af4c0-e251-4f64-8898-c52eec5c89cb

Case 10

Target Corporation: Risk Analysis

March 30, 2022

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Carson Zylicz; cezylicz@go.olemiss.edu

In this week's case, we were tasked with discovering the most relevant operational, macroeconomic, and cybersecurity risks that could affect the business of Target Corporation.

One of the most important operational risks Target faces is supply chain issues. This stems from the COVID-19 pandemic, as we have faced demand surges and capacity shortfalls. As the economy has recovered and demand increased, businesses have been unable to bring inventories back to pre-pandemic levels. These shortages are also holding back business activity in some sectors, related to delaying the construction of new Target stores. Along with that, the shortages have also led to abrupt price increases, as “Between May 2020 and May 2021, prices of commodities tracked within the Producer Price Index rose by 19 percent, the largest year-over-year increase since 1974.”[1] These price increases affect not only producer supplies but also customer prices.

One way to mitigate this risk is to diversify vendors. Target depends a lot on goods and services from outside of the United States, as their annual reports stated a large portion of their merchandise is sourced directly from outside of the country, mainly China, “so any major changes in tax or trade policy, such as the imposition of additional tariffs or duties on imported products, could require us to take certain actions, such as raising prices on products we sell, which could adversely affect our results of operations.”[2] By focusing on U.S. based merchandise, this will decrease the risk of higher tariffs on foreign imports, as well as get shipments in quicker

[1]https://www.whitehouse.gov/cea/written-materials/2021/06/17/why-the-pandemic-has-disrupted-supply-chains/
[2] https://corporate.target.com/annual-reports/2018/10-K/10-K-part-I/Item-1A-Risk-Factors

in order to fill the shelves in a timely manner. In turn, this will also reduce the likelihood of higher prices on products.

In addition to traditional supply chain issues, a substantial risk exists in the ongoing labor shortage in the US economy. Although, it may be more appropriately labeled a "labor shortage at current wages offered." During the pandemic, unemployment skyrocketed as several million workers were laid off or furloughed to prevent the spread of COVID-19. As time went on and extended unemployment benefits expired, many Americans returned to work. In fact, unemployment rates stand at one of the lowest levels in US history at 3.8 percent.[3] However, the unemployment rate only accounts for the proportion of the population that either is or is not employed out of the section of the population that is actively in the job market, as many have been out of the workforce for a long period of time.[4]

Generally speaking, as with any commodity in a market economy, when there is a shortage of a product or service, the price increases. Naturally, this indicates that, in the event Target begins to experience substantial trouble in terms of hiring or maintaining its workforce, it may be faced with the prospect of further increasing wages. Target is already known for its great compensation.[5] However, especially if substantial inflation continues, Target may be forced to keep up pace with these increases in the costs of living to remain competitive for workers. Considering wage hikes have recently occurred, however, the best short-term strategy is to encourage potential employees to consider the competitive compensation Target offers compared to other retailers.

When considering the macroeconomic risks associated with the merchandising industry, Target Corporation is in a position to lead the industry towards a more sustainable approach with

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[3] https://www.bls.gov/cps/
[4] https://www.washingtonpost.com/business/2021/12/29/job-market-2021/
[5] https://www.npr.org/2022/03/01/1083720431/target-minimum-wage

both the products they offer and their business operations as a whole. Environmental, social, and governance (ESG) issues have become one of the most popular concerns on a global scale recently, and a business' plan of action regarding ESG is critical in determining their future success. With the United States trying to match European standards of ESG awareness, Target Corporation, being the eighth largest retailer in the U.S., has the potential to greatly influence a more sustainable future. Being ahead of the surge in progressing towards a more sustainable future makes Target a more attractive business in the eyes of not only customers, but investors as well. Target already has a sustainability strategy known as Target Forward, which highlights "leveraging our size and scale to benefit people, the planet, and our business." Target Forward's sustainability efforts include purchasing nearly 50 percent of its electricity from renewable sources, with goals of 100 percent by 2023. In addition, Target has goals of net zero greenhouse gas emissions by 2040, with specific milestones set along the sustainability journey. As recently as 2022, Target has launched Target Zero, an initiative that assists customers in finding products that create minimal waste. Target is focusing on social projects as well by committing $2 billion for black-owned businesses by the end of 2025. Also, Target should continue to invest in their employees such as the CARE's Dignified Work Initiative, which are plans to improve work opportunities for women in the garment industry. With their already established Racial Equity and Change (REACH) committee, Target is committed to "a workplace experience where every team member can thrive" by offering industry-superior healthcare and debt-free education benefits.

While Target has already taken many of the previously mentioned ESG initiatives, it is imperative that Target monitor their progress towards their sustainability and social goals, and constantly assess their ESG commitments through statistical analysis.

Another critical macroeconomic risk facing Target, like most other businesses in the retail industry, is the abnormally high rate of inflation seen since 2021 in the midst of global supply chain issues as a result of the COVID-19 pandemic and the ensuing post-lockdown chaos. These risks may be even further exacerbated by looming troubles presented by the economic impact of the Russo-Ukrainian crisis, with Russia and Ukraine, combined, producing nearly 33 percent of the world's wheat and Russia being one of the largest oil producers globally. With these critical goods in shorter supply, inflationary pressures will likely continue to worsen. However, this inflation, as implied previously, is primarily supply-side, indicating that no realistic shift in public demand will improve the situation.[6]

In fact, this type of inflation can really only be solved on the firm-level by a few courses of action. On the one hand, like what most other firms have begun to pursue, Target could look into raising the prices of their products across the board to counteract inflation's effects on profit in terms of real value compared to prior years. However, Target has, until now, has appeared to avoid this course of action.[7] If avoiding this option is essential, another alternative is to reduce costs, particularly the cost of sales, as much as possible to attempt to replicate the aforementioned effect on the company's profits. As previously mentioned in prior sections, private-label brands owned by Target could serve as the focal point of this potential shift in marketing, as these products cost less to place onto the market. This strategy could be applied to any product or service Target provides that it directly owns or is somewhat more unique to Target, as opposed to general retailers. The most pragmatic approach is likely to implement, to one extent or another, both proposals if possible, with investments into the appropriate advertising or marketing ventures.

[6]https://www.pbs.org/newshour/economy/how-the-supply-chain-caused-current-inflation-and-why-it-might-be-here-to-stay

[7] https://www.cnbc.com/2021/11/17/walmart-and-target-clash-with-investors-over-low-price-strategy-.html

Now, more than ever, companies are under the duress of cyber attacks from various different sources. It is important to create a secure digital environment throughout the company. One cybersecurity risk for Target that we've identified involves the massive amount of data collected from customers. With every purchase, Target's customers hand over valuable information such as credit card numbers, email addresses, phone numbers, and more. With a data breach, this information can be exposed and stolen, thus harming both Target's brand and customers. With digital traffic becoming more of an emphasis for Target, they need to focus on securing the relationship with their customers. In 2013, Target had one such breach in which the data of 41 million customers was exposed and they were forced to pay $18 million in damages.[8] To mitigate the risk of a breach, Target has to secure its exchange points with this customer data. These exchange points occur in retail locations, in the data center, and in the cloud. It is important to educate employees about where different cyber threats originate from so they can know how to mitigate them. On an employee level, this means not clicking on phishing links or sharing company information.

Another cybersecurity threat that is near to Target is a supply chain attack. Ransomware attacks linked to key supply chain resources have become more prevalent in the last few years. An attack on a key supplier could really disrupt the whole business in various different retail locations. To mitigate this risk, Target can work on diversifying their supply chain to different suppliers. Suppliers may also hold key information about Target, and thus could be a target for ransomware attacks. It is also important for Target to have data backups on supplier information in case of an attack. As digital is taking over more of the customer experience, Target must have cyber defenses in place to prepare for potential attacks.

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[8] https://www.usatoday.com/story/money/2017/05/23/target-pay-185m-2013-data-breach-affected-consumers/102063932/

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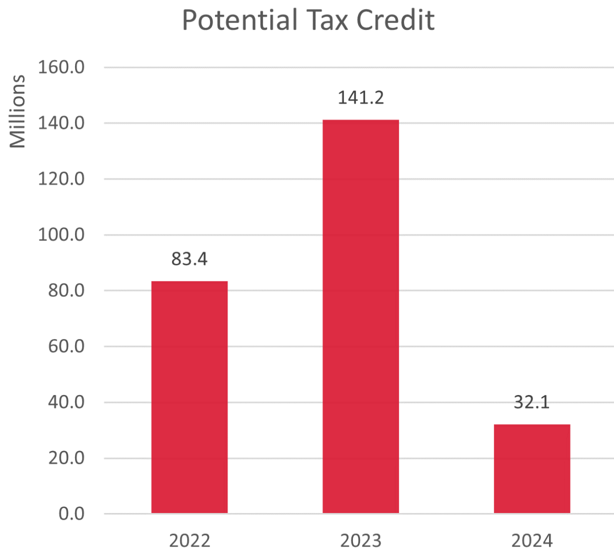
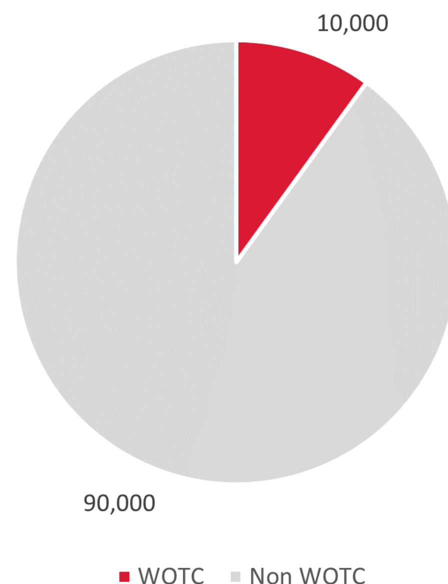


Utilize renewable incentives to maximize tax rebates

- The U.S. is offering a credit of 26% for projects commencing before 2022, 22% before 2023, and 10% before 2026
- Aligns with the "Target Forward" sustainability goals
- A total tax credit of over $200 million based on a $1.2 billion investment in solar
- In conjunction, Target can also receive a bonus upfront depreciation

Expand employment opportunity and associated benefits

- Average of 100,000 new employees each year (~25% turnover rate)
- Allow 10% (10,000) of these to be WOTC eligible
- Earn a potential tax credit of $24 million per year until 2026
- Achieve high levels of employee satisfaction while continuing great customer service
- Presents extensive short-term benefits



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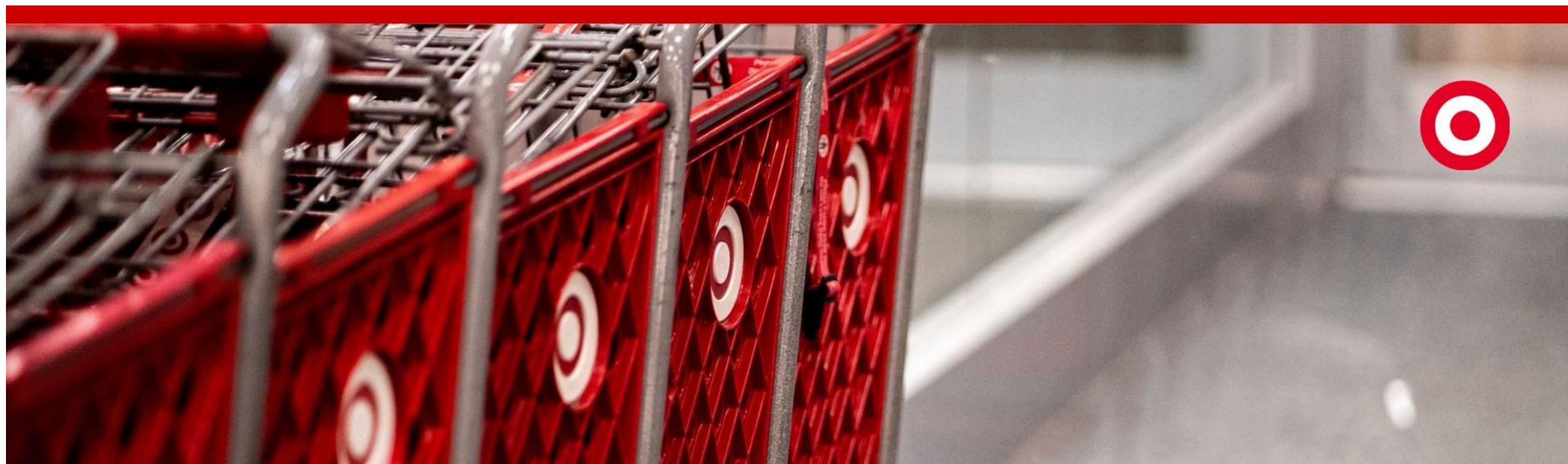


Target Corporation

Tax Advisory Role

Caleb Colley, Bennett Moore, Olivia Peterson, Carson Zylicz

“Expect more, pay less.”

Target Motto

Risk Factors

Operational Risks

Supply Chain

- Same day shipping becoming the norm
- Shipping delays prevalent
- Target is adding 30,000 supply chain jobs and opening 4 distribution centers

Labor Shortage

- Pandemic and current policies' effects
- Employee retention importance
- Competitive wages and incentives

ESG

- Important to both investors and consumers
- Target Forward and Target Zero
- Assess commitments through statistical analysis

Inflation

- Producer price index rose by 19% between May 2020 and 2021
- Target must stay committed to its core mission

4

Other Service Lines

Audit

Inventory

Risk: Intentional and unintentional material misstatement

Solution: Technology implementation to track or notice anomalies

Revenue

Risk: Fraud and main measurement of success

Solution: Monitor POS systems and separation of duties

SG&A

Risk: Variables in inputs and expense recognition

Solution: Benchmarking and valuation techniques

Other Service Lines

Advisory

Private Label

- Commands higher margins and combats inflation
- Lower manufacturing costs

Other Service Lines

Advisory

Digital & Pickup

- 19% of sales as of Q4 2021
- Comparable digital sales grew 21% vs store growth of 11%

Other Service Lines

Advisory

Partner Brands

- Opened 100 Ulta Beauty locations within Target in 2021
- Other partners include Levi's, Apple, and Disney

Other Service Lines

Risk Advisory and Data Security

Cybersecurity Threats

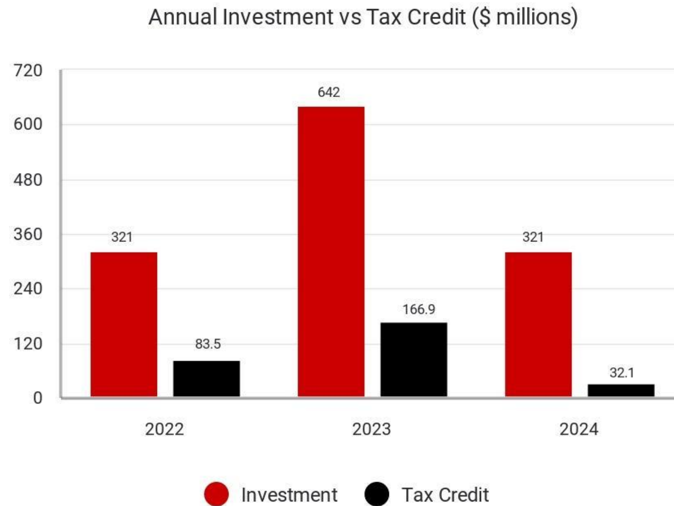
- **Shift to Digital**
  Increased risk associated with eCommerce
- **Supply Chain Attacks**
  Ransomware and supplier data
- **Customer Data**
  2013 data breach

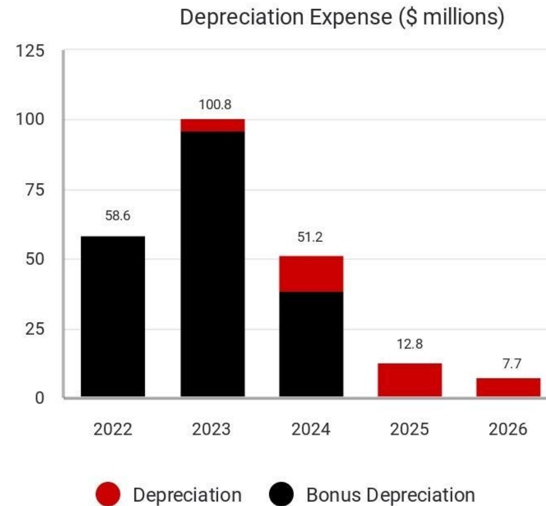
Risk Mitigation

- **Training and Overall Awareness**
  Communicating measures to employees and customers
- **Internal Controls and Supplier Vetting**
  Secure access points to important customer and supplier data
- **Strengthen Infrastructure**
  Data backups and multi-factor authentication

Tax Advisory

Solar Tax Credit





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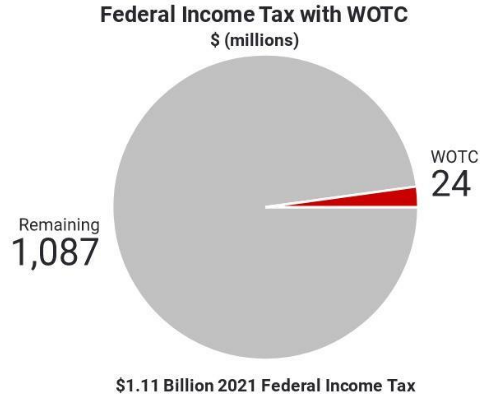
Tax Advisory

Work Opportunity Tax Credit



WOTC Applicable Groups

SNAP recipients, SSI recipients, Ex-felons, Long-term unemployed, qualified veterans, and some other groups

Goal of 10,000 WOTC Employees each year

Average of ~ 2,000,000 Eligible WOTC Recipients each year

$24 million estimate in WOTC

40% of wages paid up to $6,000 per employee times 10,000 employees

Q&A

Appendix

Solutions Overview

Target Forward + Target Zero

WOTC Code

2020 Financial Highlights

Solar Tax Code

WOTC Certificates

2020 Financial Summary

Solar Tax Calculations

WOTC Calculations

BENEFITS TO EMPLOYERS

The credit available ranges from **$2,400** up to **$9,600**, depending on the targeted group and qualified wages paid to the new employee generally during the first year of employment. Generally, the credit is 40% of qualified first-year wages for individuals who work 400+ hours in their first year of employment.

HOW CAN EMPLOYERS FIND JOB CANDIDATES IN WOTC TARGETED GROUPS?

The American Job Centers and partnering agencies and programs can help employers connect with skilled job seekers who may be in a targeted group for the WOTC. American Job Centers (AJCs) can assist employers in recruiting talent, hosting job fairs, conducting skills assessment, and providing support to workers transitioning to new jobs.

Some jobseekers may also be pre-certified as in a WOTC targeted group. This pre-certification can be helpful, but is not required for hiring or claiming the tax credit, and job candidates that may be a good fit for your business and eligible for the WOTC may not have a pre-certification. A state workforce agency (SWA) or **participating agency** can determine whether a job seeker may be in a WOTC targeted group, and note this determination with a ***Conditional Certification***, ETA Form 9062. The state agency then gives that pre-certification to the job-ready applicant to use during their job search. The Conditional Certification serves an as official record of WOTC pre-certification by:

- Alerting prospective employers to the availability of the tax credit if the individual is hired, and
- Providing a means for employers to request a WOTC certification for the job applicant/new hire.

A "**participating agency**" is a federal, state, county, or local government agency or a grantee of these agencies. Examples of participating agencies may include:

- American Job Centers
- Vocational Rehabilitation agencies
- City and county social service offices
- Department of Corrections
- Veterans Administration and related service organizations
- Workforce Innovation and Opportunity Act (WIOA) grant recipients

The Employee Retention Credit (ERC). Under present law, the ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages paid by an eligible employer after March 12, 2020, and before January 1, 2021, and 70% of qualified wages paid by an eligible employer after December 31, 2020, and before January 1, 2022. Eligible employers can get immediate access to the credit by reducing employment tax deposits they are otherwise required to make. For example, a small business employer that hires an individual released from prison following incarceration for a felony within the last twelve months, and employs the individual from July 1, 2021, through December 31, 2021, could qualify for a credit of up to $16,400 for that employee by claiming both the WOTC and the ERC, provided that the same wages are not used to calculate the WOTC and the ERC. For more information on the ERC, visit the IRS website: https://www.irs.gov/newsroom/new-law-extends-covid-tax-credit-for-employers-who-keep-workers-on-payroll.

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Fact Sheet

About WOTC

The Work Opportunity Tax Credit (WOTC) is authorized until December 31, 2025 (Section 113 of Division EE of P.L.116-260 -- Consolidated Appropriations Act, 2021).

The U.S. Department of Labor (DOL) and U.S. Department of Treasury, through the Internal Revenue Service (IRS), jointly administer the implementation of the WOTC program. DOL, through the Employment and Training Administration (ETA), provides grant funding and policy guidance to the State Workforce Development Agencies, also called State Workforce Agencies (SWA) to administer the certification process, while IRS administers all tax-related provisions and requirements.

WOTC targeted groups include: 1) Qualified IV-A recipient; 2) Qualified Veteran; 3) Qualified Ex-Felon; 4) Designated Community Resident; 5) Vocational Rehabilitation Referral; 6) Summer Youth Employee; 7) Supplemental Nutrition Assistance Program (SNAP "food stamps") recipient; 8) Supplemental Security Income (SSI) recipient; 9) Long-term Family Assistance recipient; and 10) Qualified Long-term Unemployment recipient.

Funding

For Fiscal Year (FY) 2021, SWAs received $18,485,000 to support the administration of WOTC, which includes certification process and reporting data on a quarterly basis.

Outcomes

- In FY 2020, SWAs issued 1,620,806 certifications.
- In FY 2019, SWAs issued 2,068,417 certifications.
- In FY 2018, SWAs issued 2,204,142 certifications.
- In FY 2017, SWAs issued 2,027,012 certifications.

Note: Data may change due to performance reporting updates.

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Bonus Depreciation

A business with a solar PV system placed in service between January 1, 2008, and September 8, 2010, or between January 1, 2012, and December 31, 2017, can elect to claim a 50% depreciation bonus. Systems placed in service between September 9, 2010 and December 31, 2011 or between January 1, 2018 and December 31, 2022, can elect to claim a 100% bonus depreciation. Starting in 2023, the percentage of capital equipment that can be expensed immediately drops 20% per year (e.g., 80% in 2023 and 60% in 2024) until the provision drops to 0% in 2027.[15]

Accelerated Depreciation and the Depreciation Bonus

Accelerated Depreciation

A taxpayer who claims the commercial ITC for a solar PV system placed in service can typically also take advantage of accelerated depreciation (Modified Accelerated Cost-Recovery System, or MACRS) to reduce the overall cost of a PV installation. To calculate the income on which federal corporate taxes are owed, a business takes the difference between its revenues and expenses, plus

energy are also eligible for the ITC but are beyond the scope of this guidance.)

- In December 2020, Congress passed an extension of the ITC, which provides a 26% for systems commencing construction in 2020-2022, 22% for systems commencing construction in 2023, and 10% for systems commencing construction in 2024 or thereafter. Any PV system placed in service after 2025, regardless of when it commenced construction, can receive a maximum tax credit of 10%.[2]
- Typically, a solar PV system that is eligible for the ITC can also use an accelerated depreciation corporate deduction.

Eligible Projects

To be eligible for the business ITC (section 48 of the tax code), the solar PV system must be:

- Used by a business subject to U.S. federal income taxes (i.e., it cannot be used by a tax-exempt entity like a charity)
- Located in the United States or U.S. territories (though can only be used against federal income tax obligations)[3]
- Systems must use new and limited previously used equipment[4]
- Not used to generate energy for heating a swimming pool

construction in 2019 and which use the IRS continuity safe harbor. See below for further detail on "continuity safe harbor").

- 26% tax credit for projects commencing construction between January 1, 2020, and December 31, 2022, but placed in service before 2026 (before 2025 for projects commencing construction in 2020 and which use the IRS continuity safe harbor. See below for further detail on "continuity safe harbor").
- 22% tax credit for projects commencing construction between January 1, 2023, and December 31, 2023, but placed in service before 2026.
- 10% tax credit for projects commencing construction after December 31, 2023, or placed in service after December 31, 2025.[5]

A solar project is considered to have commenced construction if:

- At least 5% of final qualifying project costs are incurred. Expenses have to be "integral" to generating electricity, and equipment and services have to be delivered (or delivered within 3.5 months after payment).
- Or, "physical work of significant nature" is commenced on the project site or on project equipment at the

Bonus Depreciation Calculation

Because the business is claiming the ITC, its depreciable basis for the system after applying the ITC is 89% (100% - 22%/2) of the tax basis:

0.89 * $1,000,000 = $890,000

To calculate the bonus depreciation for a solar PV property placed in service in 2025, the business multiplies the depreciable basis by 40%:

0.4 * $890,000 = $356,000

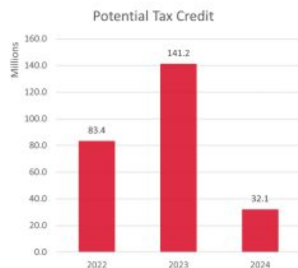
Accelerated Depreciation Calculation

In the example, the business uses accelerated depreciation to determine what amount of depreciation it will deduct in each year from 2025 to 2030. Assuming this five-year recovery period, a half-year convention, and a 200% declining balance method, IRS Publication 946 Table A-1 lists the depreciation rate as 20% for Year 1. The business calculates its accelerated depreciation deduction by taking the difference between the original depreciable basis and the amount claimed for the bonus depreciation and multiplying by the depreciation rate:

0.20 * ($890,000 - $356,000) = $106,800

Back

Target's purpose is to focus on customer experience. We plan to pursue a tax advisory role for Target Inc.



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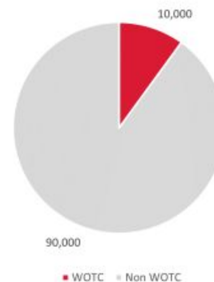

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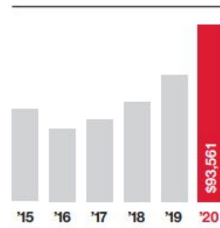
Financial Highlights

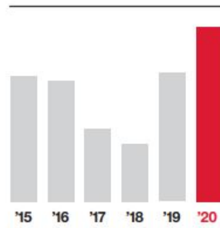
(Note: Reflects amounts attributable to continuing operations. 2017 was a 53-week year.)

Total Revenue
In Millions



2020 Growth: 19.8%
Five-year CAGR: 4.7%

Operating Income
In Millions

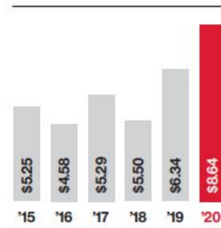


2020 Growth: 40.4%
Five-year CAGR: 6.0%

Net Earnings
In Millions

2020 Growth: 33.6%
Five-year CAGR: 5.6%

Diluted EPS



2020 Growth: 36.3%
Five-year CAGR: 10.5%

Total 2020 Sales: $92,400 Million

Beauty & Household Essentials

Food & Beverage

Home Furnishings & Décor

Apparel & Accessories

Hardlines

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Financial Summary

	2020	2019	2018	2017 [a]	2016
FINANCIAL RESULTS (in millions)					
Sales	$ 92,400	$ 77,130	$ 74,433	$ 71,786	$ 69,414
Other revenue	1,161	982	923	928	857
Total revenue	93,561	78,112	75,356	72,714	70,271
Cost of sales	66,177	54,864	53,299	51,125	49,145
Selling, general and administrative expenses (SG&A)	18,615	16,233	15,723	15,140	14,217
Depreciation and amortization (exclusive of depreciation included in cost of sales)	2,230	2,357	2,224	2,225	2,045
Operating income	6,539	4,658	4,110	4,224	4,864
Net interest expense [b]	977	477	461	653	991
Net other (income) / expense	16	(9)	(27)	(59)	(88)
Earnings from continuing operations before income taxes	5,546	4,190	3,676	3,630	3,961
Provision for income taxes [c]	1,178	921	746	722	1,295
Net earnings from continuing operations	4,368	3,269	2,930	2,908	2,666
Discontinued operations, net of tax	—	12	7	6	68
Net earnings	$ 4,368	$ 3,281	$ 2,937	$ 2,914	$ 2,734
PER SHARE					
Basic earnings per share					
Continuing operations	$ 8.72	$ 6.39	$ 5.54	$ 5.32	$ 4.61
Discontinued operations	—	0.02	0.01	0.01	0.12
Net earnings per share	$ 8.72	$ 6.42	$ 5.55	$ 5.32	$ 4.73
Diluted earnings per share					
Continuing operations	$ 8.64	$ 6.34	$ 5.50	$ 5.29	$ 4.58
Discontinued operations	—	0.02	0.01	0.01	0.12
Net earnings per share	$ 8.64	$ 6.36	$ 5.51	$ 5.29	$ 4.69
Cash dividends declared	$ 2.70	$ 2.62	$ 2.54	$ 2.46	$ 2.36
FINANCIAL POSITION (in millions)					
Total assets	$ 51,248	$ 42,779	$ 41,290	$ 40,303	$ 38,724
Capital expenditures	$ 2,649	$ 3,027	$ 3,516	$ 2,533	$ 1,547
Long-term debt, including current portion	$ 12,680	$ 11,499	$ 11,275	$ 11,398	$ 12,591
Net debt [d]	$ 5,036	$ 9,689	$ 10,506	$ 10,267	$ 11,481
Shareholders' investment	$ 14,440	$ 11,833	$ 11,297	$ 11,651	$ 10,915
FINANCIAL RATIOS					
Comparable sales growth [e]	19.3%	3.4%	5.0%	1.3%	(0.5)%
Gross margin (% of sales)	28.4%	28.9%	28.4%	28.8%	29.2%
SG&A expenses (% of total revenue)	19.9%	20.8%	20.9%	20.8%	20.2%
Operating income margin (% of total revenue)	7.0%	6.0%	5.5%	5.8%	6.9%
OTHER					
Common shares outstanding (in millions)	500.9	504.2	517.8	541.7	556.2
Operating cash flow provided by continuing operations (in millions)	$ 10,525	$ 7,099	$ 5,970	$ 6,861	$ 5,337
Revenue per square foot [f]	$ 388	$ 326	$ 314	$ 298	$ 293
Retail square feet (in thousands)	241,648	240,516	239,581	239,355	239,502
Square footage growth	0.5%	0.4%	0.1%	(0.1)%	—%
Total number of stores	1,897	1,868	1,844	1,822	1,802
Total number of distribution centers	44	42	40	41	40

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New Net Income Calculations (Implementing WOTC)			
2020 Pre-Tax Income from Continuing Operations			$ 5,546,000,000.00
	Additional Sales Revenue	1,679,127,726.00	
	Additional Cost of Sales	(1,202,593,458.00)	
	Additional Selling, General, and Administrative Expense	(895,503,667.00)	
Reduction of Pre-Tax Income from Continuing Operations			(418,969,399.00)
Provisional Pre-Tax Income from Continuing Operations			5,127,030,601.00
	Pre-WOTC Provision for Income Taxes (net of deferred income taxes)	(1,089,008,664.00)	
	WOTC Applied	24,000,000.00	
Total Income Tax Expense			(1,065,008,664.00)
Net Income			**4,062,021,937.00**

New Net Income Calculations (No WOTC)			
2020 Pre-Tax Income from Continuing Operations			$ 5,546,000,000.00
	Additional Sales Revenue	1,679,127,726.00	
	Additional Cost of Sales	(1,202,593,458.00)	
	Additional Selling, General, and Administrative Expense	(895,503,667.00)	
Reduction of Pre-Tax Income from Continuing Operations			(418,969,399.00)
Provisional Pre-Tax Income from Continuing Operations			5,127,030,601.00
Income Tax Expense			(1,089,008,664.00)
Net Income			**4,038,021,937.00**

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	2022 Section of Work	100% Bonus Depreciation 2022						
Investment Total	$ 321,000,000.00							
Total Tax Credit	$ 83,460,000.00	$ 279,270,000.00						
	2023 Section of Work	80% Bonus Depreciation 2023	Remaining DB	2023	2024	2025	2026	2027
Investment Total	$ 642,000,000.00	$ 457,104,000.00	$ 114,276,000.00	$ 22,855,200.0	$ 36,568,320.00	$ 21,940,992.00	$ 13,164,595.20	$ 13,164,595.2
Total Tax Credit	$ 166,920,000.00							
	2024 Section of Work	60% Bonus Depreciation 2024	Remaining DB	2024	2025	2026	2027	2028
Investment Total	$ 321,000,000.00	$ 182,970,000.00	$ 121,980,000.00	$ 24,396,000.0	$ 39,033,600.00	$ 23,420,160.00	$ 14,052,096.00	$ 14,052,096.0

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Target Forward and Target Zero

Ambitions:

1. Design and elevate sustainable brands
2. Innovate to eliminate waste
3. Accelerate opportunity and equity

Sustainability journey:

- In 2019, Target set science-based targets for emissions reductions
- Committed to join the Business Ambition for 1.5℃
- Purchasing nearly 50% of our electricity from renewable sources, well on our way to 100% by 2030
- Accelerated commitments to sustainable packing in 2018 when Target became signatories to the New Plastics Economy
- Target's Racial Equity Action and Change (REACH) committee was established in 2020 and accelerates their work to create racial equity for Black team members, guests and communities.

How Target will I get there:

- Target aims to elevate owned, national, and emerging sustainable brands that are affordable, inclusive, and inspirational.
- Target is committed to a sustainable and inclusive supply chain that is just and equitable for all workers.
- Target plans to partner across the value chain to design solutions that eliminate waste, while providing ease and convenience.
- Target commits to being a net zero enterprise by 2040.
- Target aims to create an equitable and inclusive workforce and workplace.
- Target will help enable the vitality and resilience of our team and the communities Target serves.

Target goals:

- By 2030, Target aims to be the market leader for creating and curating inclusive, sustainable brands and experiences.
- By 2025, Target plans for 100% of our owned brands, in addition to our owned brand limited-edition and brand partnerships, to adhere to Target's already established sustainability standards/
- By 2025, Target plans for 100% of suppliers to have policies and programs to advance gender equity.
- By 2040, Target plans for 100% of our owned brand products to be designed for a circular future.
- By 2025, Target intends to reduce annual total virgin plastic in our owned brand packaging by 20%.
- By 2040, Target commits to net zero greenhouse gas emissions across our enterprise.
- By 2030, Target plans to achieve zero waste to landfill in U.S. operations.
- By 2030, Target aims to build a team that equitably reflects the communities we serve.
- Create a workplace experience where every team member can thrive in when, where and how they work.
- By 2030, engage and elevate community voices as we seek to build and implement community-driven solutions.
- Invest in well-being solutions to address social determinants of health for team members and their families.

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