# Target:
# A Revised Transaction

*November 19, 2008*

PERSHING SQUARE

Pershing Square Capital Management, L.P.

# Disclaimer

**The information contained in this presentation (the "Information") is based on publicly available information about Target Corporation ("Target"). None of Pershing Square Capital Management, L.P., its affiliates and any of their respective officers, directors and employees (collectively, "Pershing"), nor any representative of Pershing, has independently verified any of the Information. Pershing recognizes that there may be confidential or otherwise non-public information in Target's possession that could lead others to disagree with Pershing's conclusions. The sole purpose of presenting the Information is to inform interested parties about the transaction described in this presentation (the "Transaction"). This presentation does not constitute an offer or a solicitation of any kind.**

**Neither Pershing nor any of its representatives makes any representation or warranty, express or implied, as to the accuracy or completeness of the Information or any other written or oral communication made in connection with this presentation or the Transaction. The Information includes certain forward-looking statements, estimates and projections with respect to the anticipated future financial, operating and stock market performance of Target in the absence of the Transaction and the two public companies that may result if the Transaction is completed. Such statements, estimates and projections may prove to be substantially inaccurate, reflect significant assumptions and judgments that may prove to be substantially inaccurate, and are subject to significant uncertainties and contingencies beyond Pershing's control, including those described under the caption "Risk Factors" in Target's filings with the Securities and Exchange Commission as well as general economic, credit, capital and stock market conditions, competitive pressures, geopolitical conditions, inflation, interest rate fluctuations, regulatory and tax matters and other factors.**

**Pershing and its representatives expressly disclaim any and all liability relating to or resulting from the use of the Information or any errors therein or omissions therefrom, including under applicable securities laws. The Information does not purport to include all information that may be material with respect to the Transaction or Target. Thus, shareholders and others should conduct their own independent investigation and analysis of Target, the Transaction and the Information.**

**The Information is not intended to provide the basis for fully evaluating, and should not be considered a recommendation with respect to, the Transaction, Target, the securities of Target or any other matter. Except where otherwise indicated, the Information speaks as of the date hereof. Neither Pershing nor any of its representatives undertakes any obligation to correct, update or revise the Information or to otherwise provide any additional materials.**

**The preparation and distribution of this presentation should not be taken as any form of commitment on the part of Pershing to take any action in connection with the Transaction.**

**Pershing is in the business of buying and selling securities. It has, and may in the future, buy, sell or change the form of its position in Target for any or no reason.**

**IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that (i) any discussion of U.S. tax matters contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code; (ii) any such discussion of tax matters is written in connection with the promotion or marketing of the matters addressed; and (iii) you should seek advice from an independent advisor.**

# Recent Events

- **On October 29, 2008, Pershing presented "A TIP for Target Shareholders," which detailed a potential Transaction ("October 29th Transaction") that would create long-term value for Target Corporation and its shareholders**
- **After the presentation, Target expressed concerns regarding the October 29th Transaction**
- **Since then, Pershing has met with Target, members of its Board, as well as Retail and Real Estate investors**
  - We have received valuable feedback from these meetings

- **Today, we will present a <u>Revised Transaction</u> that addresses Target's concerns, incorporates feedback from the investment community, and creates great value for Target shareholders**

# Agenda

- Review of the October 29th Transaction
- Target's Concerns
- A Revised Transaction
- Benefits of the Revised Transaction
- Appendix

# Review of the October 29th Transaction

# Updating Our Model

**We have updated our model to reflect Q3 2008 results as well as revised guidance provided by Target management on its earnings call on Monday, November 17, 2008**

- **Reduced Q4 ’08E same-store-sales expectations to negative 5%**
- **Lowered capital expenditures in 2009 by approximately $1bn**
- **Slowed square footage growth in 2010E**
- **Halted share buybacks in Q4 2008 and for the full year 2009**
- **Used a 20-day average stock price of $37 per share for Target**

**The analyses provided in this presentation reflect the updated model**

# Objectives

**In reviewing alternatives for Target, Pershing Square's objective was to eliminate the stock market's ascribed discount to the intrinsic value of Target's real estate and allow the Company to:**

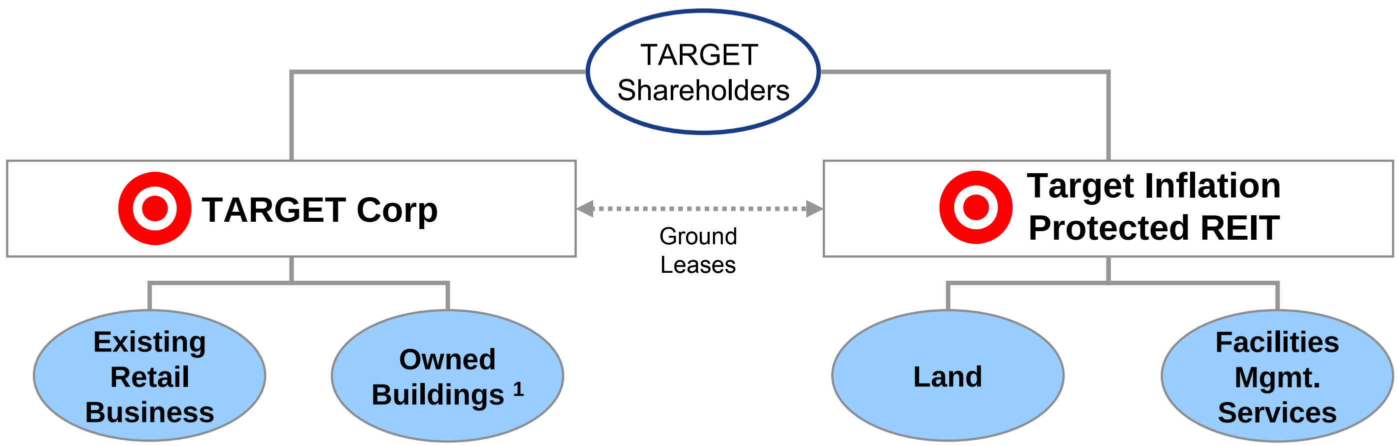
- **Retain complete control of its buildings and its brand**
- **Retain 100% flexibility with respect to its construction, remodeling, and relocation plans**
- **Improve the Company's free cash flow and access to capital**
- **Increase the Company's ROIC and lower its cost of capital**
- **Maintain an investment grade credit rating**
- **Increase the Company's EPS growth rate**
- **Minimize tax leakage and friction costs**

# October 29th Transaction

**Tax-free spin of Target Inflation Protected REIT (or "TIP REIT") as Groundlessor and Facility Manager**

## Pre–Spin


## Post–Spin




- New Target Corp owns its buildings on 75-year ground leases
- Outsources Facilities Management Services
- Continues to maintain properties

(1) *Includes third-party ground leases*

- Leases back land to Target Corp through a Master Lease for a 75-year term
- Elects REIT status at the time of spin-off
- Becomes Target Corp's outsourced facilities management provider
- Becomes Target's exclusive land developer for the first two years
- After two years, becomes Target Corp's Preferred Vendor for land procurement

# Unlocking Immense Real Estate Value

**REITs, private market ground leases, and inflation-protected securities all trade at much higher valuation multiples than Target's multiple, at <u>only 5.8x '09E EV/EBITDA</u>, based on a 20-day trading average stock price of $37**

**Target's Market Valuation [(1)]**

**2009E EV / EBITDA**

**5.8x**

**$37/Share** (1)

**Inflation Protected Securities / REIT Market Valuations**

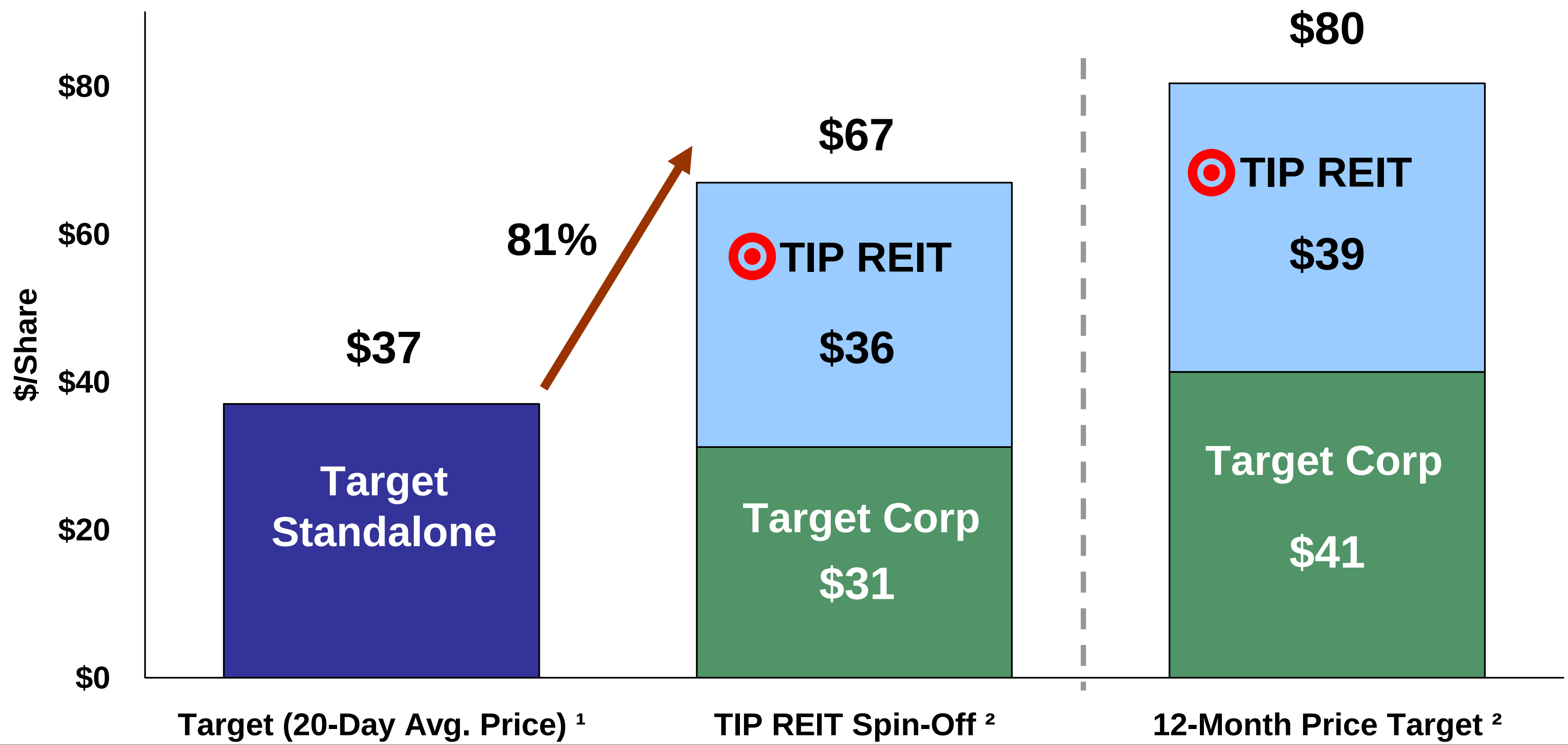
**2009E EV / EBITDA**

| 14.5x | 17.0x | 35.7x |
|---|---|---|
| Large Cap REITs (1) | Recent "Big Box" Ground Lease (2) | Inflation Protected Treasury Securities (TIPS) (3) |

**The Transaction creates immense and instant value because 22% of Target's current EBITDA will be valued at a significantly higher multiple than where Target trades today**

Note: Target valuation assumes sale of remaining 53% interest on credit card receivables for $4.4bn, with Target retaining $150mm of credit card EBITDA
(1) Based on a 20-day trading average as of 11/14/08
(2) Based on mid-point precedent cap rate of 5.9%
(3) Based on current 20-year TIP yield of 2.8% as of 11/14/08

# Valuation Summary




| | Target (20-Day Avg. Price) [1] | | TIP REIT Spin-Off [2] | 12-Month Price Target [2] | |
|---|---|---|---|---|---|
| Equity Value ($bn) | $28 | Target Corp | $24 | Equity Value ($bn) | $31 |
| Enterprise Value ($bn) | $37 | Target Corp | $33 | Enterprise Value ($bn) | $39 |
| '09E EV/EBITDA | 5.8x | Target Corp | 6.5x | '10E EV/EBITDA | 7.0x |
| '09E P/E | 11.4x | Target Corp | 14.7x | '10E P/E | 16.1x |
| Equity Value ($bn) | | TIP REIT | $27 | Equity Value ($bn) | $29 |
| Enterprise Value ($bn) | | TIP REIT | $27 | Enterprise Value ($bn) | $30 |
| '09E Dividend Yield | | TIP REIT | 5.0% | '10E Dividend Yield | 4.8% |
| Cap Rate | | TIP REIT | 5.4% | Cap Rate | 5.1% |
| '09E P/AFFO | | TIP REIT | 20.0x | '10E P/AFFO | 21.0x |
| '09E EV/EBITDA | | TIP REIT | 19.1x | '10E EV/EBITDA | 20.1x |

Note: Target valuation assumes sale of remaining 53% interest on credit card receivables for $4.4bn
For illustrative purposes, assumes Spin-off Transaction occurs on 01/01/09
*(1) Based on 20-day trading average as of 11/14/08; assumes sale of remaining 53% interest on credit card business with proceeds used to pay down debt*
*(2) Based on mid-point of valuation analysis*

***Even ignoring valuation benefits, there are important strategic reasons to consummate the Transaction…***

# Benefits of the October 29th Transaction

## 1. Allows Target Corp to retain control over its buildings and brand

## 2. Improves Target's overall access to capital

- There is risk to Target's status quo. Retailers' access to capital has been called into question
- TIP REIT is one of the most stable companies in the world
- TIP REIT is better able to access capital for future land acquisitions than Target today, given TIP REIT's immense security, stability, and unleveraged balance sheet
- TIP REIT can use non-cash currency (OP units) for tax-efficient real estate acquisitions

# Benefits of the October 29th Transaction *(cont'd)*

## 3. Increases free cash flow at Target Corp by nearly $500mm, thereby decreasing Target's capital needs

- After-tax rent expense of ~$890mm is offset by land development capex of ~$890mm, which is funded by TIP REIT
- TIP REIT pays all of Target's 2009E dividends of 64 cents/share as well as an incremental $1.15/share to Target shareholders

| ($mm, except per share data) | 2009E Standalone (1) | 2009E Target Corp (1) | Net Incremental Cash Flow |
|---|---|---|---|
| Memo: Incremental Rent Expense | – | 1,433 | |
| **Cash Flow Impact on Key Affected Metrics** | | | |
| *Incremental After-Tax Rent Expense* | – | 888 | (888) |
| *Dividends Paid* | 483 | – | 483 |
| *Land Development Capex* | 890 | – | 890 |
| **Net Impact to Cash Flow** | **$1,373** | **$888** | **$484** |

(1) Assumes sale of remaining 53% interest on credit card receivables for $4.4bn on 01/01/09, with Target retaining $150mm of credit card EBITDA in '09E

# Benefits of the October 29th Transaction *(cont'd)*

## 4. Maintains an investment grade credit ratings profile

## 5. Provides a clear path back to an "A" category credit rating

| ($bn, except where noted) | PF 2008E [1] | 2009E | 2010E | 2011E |
|---|---|---|---|---|
| Target Corp Adj. Debt/EBITDAR | 3.4x | 3.2x | 2.8x | 2.8x |
| Expected Ratings Profile | Mid - High BBB/Baa | Mid - High BBB/Baa | A- / A3 | A- / A3 |

## 6. Creates over $510mm of tax savings in the first year post transaction

- Optimizes ownership of land, a non-depreciable asset, through a REIT structure

(1) Assumes sale of remaining 53% interest on credit card receivables for $4.4bn on 01/01/09, with proceeds used to pay down debt

# Benefits of the October 29th Transaction *(cont'd)*

**7. Increases total dividends for Target's current shareholders from $0.64/share to $1.79/share in 2009E (1)**

**8. Improves store-level ROIC and increases Target's EPS growth rate**

**9. Achieves a tax-free spin-off**

**10. Creates enormous shareholder value, potentially increasing Target's stock price from $37 to $67 per share**

(1) Excludes $112mm (approximately $0.15/share) of incremental interest expense due to CY2009 cash E&P distribution

# TIP REIT Investment Highlights

**“Land-only” structure is extremely secure**

- $39bn of “Lease Security”, including $20bn of unencumbered buildings

**Long-term lease provides bond-like stability and inflation-protection**

- 75-year, inflation-protected “Master Lease” with Target Corp

**Significant growth opportunity**

- Formal arrangement with Target Corp provides long-term growth pipeline

**High quality locations and superb tenant profile**

**De minimis maintenance capex allows for strong FCF generation**

**Tremendous size and scale – a “must-own” yield stock**

# Large, Liquid, "Must-Own" Yield Stock

## TIP REIT will be the 58th largest company in the S&P 500

### S&P 500 Ranked by Market Cap (1)

| Rank | Company | Market Cap (1) ($mm) |
|---|---|---|
| 50 | Time Warner | 32,821 |
| 51 | Colgate-Palmolive | 31,323 |
| 52 | Devon Energy | 30,960 |
| 53 | Boeing | 30,129 |
| 54 | Union Pacific | 29,160 |
| 55 | Lockheed Martin | 28,948 |
| 56 | Southern | 27,273 |
| 57 | Burlington Northern Santa Fe | 27,257 |
| **58** | **TIP REIT** | **27,000** |
| 59 | Celgene | 26,965 |
| 60 | Lowe's | 26,689 |

### S&P 100 Non-Financials Ranked by Dividend Yield (2)

| Rank | Company | Dividend Yield (%) |
|---|---|---|
| 1 | Altria Group | 7.9 |
| 2 | Pfizer | 7.9 |
| 3 | General Electric | 7.7 |
| 4 | Bristol-Myers Squibb | 6.3 |
| 5 | Verizon Communications | 6.1 |
| 6 | E.I. DuPont de Nemours | 6.0 |
| 7 | Eli Lilly | 5.9 |
| 8 | AT&T | 5.8 |
| 9 | Philip Morris International | 5.6 |
| 10 | Merck | 5.6 |
| **11** | **TIP REIT (3)** | **5.0** |
| 12 | Southern Co. | 4.8 |
| 13 | Caterpillar | 4.5 |
| 14 | Home Depot | 4.4 |
| 15 | Dominion Resources | 4.3 |

**Given its market cap, TIP REIT will be owned by S&P 500 index funds, large cap funds, real estate index funds, yield-oriented investors, and investors seeking inflation-protected assets**

(1) As of November 14, 2008
(2) Represents non-financial companies in the S&P 500 with market caps greater than $20bn
(3) Based on 2009E dividends

# TIP REIT: Unlike Any Existing REIT Today

| | TIP REIT | Large Cap REITs |
|---|---|---|
| **Leverage** | None | High: 54% Debt-to-TMC<br>Average: 44% Debt-to-TMC |
| **Refinancing Risk / Earnings Pressure** | None | High – REITs have borrowed at low rates and are facing much higher rates and refinancing risk for debt maturities |
| **Transaction Income** | None / 100% rental income | Sometimes |
| **Re-leasing Risk** | None / 75-year lease | Yes, typically 10% or more of leases up for renewal annually |
| **Maintenance Capital** | None | Yes, typically 8% of EBITDA |
| **Growth** | Preferred vendor arrangement | No preferred arrangement |
| **“Lease Security”** | $20bn of unencumbered buildings, given “land-only” structure | None. Owns both land buildings |

# How is TIP REIT Similar to TIPS?

**TIP REIT has many of the same features of Treasury Inflation Protected Securities (TIPS). However, TIP REIT has the added benefit of a growth platform and no "Phantom tax"**

| | TIP REIT | 20-Year TIPS |
|---|---|---|
| Extremely low probability of default | ■ Backed by highly-rated Target Corp<br>■ $39bn of "Lease Security" or 145% TIP REIT's EV at 5.0% dividend yield | ■ Backed by federal government |
| Inflation protection | ■ Rent income adjusted for CPI | ■ Payment based on CPI adjusted principal |
| Long-term duration with required payments | ■ 75-year lease term<br>■ REIT dividend payment required by law | ■ 20 years<br>■ Interest payment required by law |
| Liquidity | ■ $27bn market cap | ■ Over $450bn market (1) |
| Growth platform | ■ Yes | ■ No |
| "Phantom tax" | ■ No | ■ Yes (tax on inflation adj. principal) |

(1) Size of total TIPS market

# Feedback from REIT Investors

**Since the October 29th presentation, Pershing Square has met or held calls with several of the largest REIT investors and received valuable feedback regarding TIP REIT**

## Feedback from REIT investors

- ✓ ***Appreciation of the security and stability offered by land-only structure***
  - Agreement on a valuation premium for land-only REIT (versus a land and building REIT)
- ✓ ***Strong interest in an unlevered REIT***
- ✓ ***Desire for more large cap, liquid REITs***
- ✓ ***Interest in an independent TIP REIT Board and management***
- ✓ ***Valuation benefits of an "A" category credit rating at Target***

# Interest from a Broad Group of Investors

**In addition, Pershing Square has received strong interest in TIP REIT from a broad category of large investor groups beyond traditional REIT investors**

- ✓ **Pensions**
- ✓ **Endowments**
- ✓ **Income-oriented funds**

**These investors are seeking security, stability, long-term inflation-protection, and <u>a higher yield than that offered by TIPS</u>**

# Target’s Concerns Regarding the October 29th Transaction

# Target's Concerns

**Target expressed the following concerns regarding the October 29th Transaction:**

| Concern | Management's Commentary |
|---|---|
| 1. Valuation | ■ *"The validity of assumptions supporting Pershing Square's market valuation of Target and the separate REIT entity"* |
| 2. Reduction in Target's financial flexibility and inflation risk | ■ *"The reduction in Target's financial flexibility due to the conveyance of valuable assets to the REIT and the large expense obligation created by the proposed lease payments which are subject to annual increase"* |
| 3. Credit ratings, borrowing costs, and liquidity | ■ *"The adverse impact that the company believes the proposed structure would have on Target's debt ratings, borrowing costs and liquidity, exacerbated by current market conditions"* |

# Target's Concerns *(cont'd)*

**Target expressed the following concerns regarding the October 29th Transaction:**

| Concern | Management's Commentary |
|---|---|
| 4. Frictional costs and operational risks | *"The frictional costs and operational risks, including tax implications, of executing Pershing Square's ideas"* |
| 5. Management diversion | *"The risk of diverting management's focus away from core business operations over an extended time period to execute such a complex transaction, particularly in the current environment"* |

# A Revised Transaction

# *Revised Transaction:* <20% IPO of TIP REIT

## Step 1: Formation of Target Inflation-Protected Real Estate Investment Trust

- **Target contributes land and Facilities Management Services to a new subsidiary ("TIP REIT") (1)**
- **TIP REIT leases the land back to Target Corp through a Master Lease for a 75-year term (2)**

## Step 2: Primary IPO of <20% of TIP REIT shares

- **At the time of the IPO, TIP REIT will elect REIT status (3)**
- **IPO does not trigger any capital gains taxes**
- **Target retains >80% interest in TIP REIT**
- **Immediate valuation benefits:**
  - Allows investors to value Target on a sum-of-the-parts basis
- **Credit ratings impact:**
  - Target Corp will maintain its A+/A2 credit rating

(1) TIP REIT assumes a portion of Target liabilities. This could include a portion of Target's debt
(2) TIP REIT will lease land to Target Corp (i.e. the parent company)
(3) Non-REIT assets (e.g., the Facilities Management Services) will be placed in a taxable REIT subsidiary (TRS)

# Post IPO: Pay Down ~$9bn of Debt

**Step 3: Sale of the remaining 53% interest in Target's Credit Card Receivables**

- **At an opportune time (either pre- or post-IPO), Target sells remaining 53% interest in its credit card receivables**
- **For this analysis, we have assumed $4.4bn of proceeds from the sale**

*$ in billions*

| | |
|---|---|
| Gross Receivables CY 2008E | $9.0 |
| Allowance | (0.8) |
| Net Receivables CY 2008E | $8.2 |
| **53% Interest at Net Book Value** | **$4.4** |

**Step 4: Pay down ~$9bn of Target debt using all of the credit card proceeds, a portion of the IPO proceeds, and free cash flow**

| ($bn) | |
|---|---|
| Paydown using Proceeds from Credit Card Sale | |
| Securitized Debt | $1.9 |
| Unsecured Debt | 2.5 |
| **Total** | **$4.4** |
| Paydown using IPO Proceeds | 3.0 |
| Paydown using Free Cash Flow (1) | 1.8 |
| **Total Debt Paydown** | **$9.2** |

- **$1.6bn of cash proceeds from the IPO is left on TIP REIT's balance sheet**

*(1) Assumes TIP REIT funds land development capital expenditures of approximately $0.9bn post-IPO using debt*

# Post IPO: Spin-off TIP REIT and Purge E&P

**Step 5: Spin-off of remaining interest in TIP REIT to Target shareholders**

- **Immediately prior to spin-off, Target enters into an inflation-swap agreement to hedge inflation (alternative is to buy swaption today)**
- **Target's >80% interest in TIP REIT is distributed tax-free to shareholders**
- **Post spin-off, Target maintains its "A" category credit rating**

**Step 6: TIP REIT purges retained Earnings and Profits**

- **By December 31 of the calendar year of spin-off, TIP REIT pays a $1.6bn cash E&P dividend to TIP REIT shareholders**
- **Note: Cash E&P dividend could be materially lower than $1.6bn**
  - The REIT industry group has requested the Treasury Department to issue a rule allowing low-cash stock-cash dividends
  - If granted, this rule would reduce the cash portion of **TIP REIT's E&P dividend to as little as $400mm**

# TIP REIT IPO Proceeds

**Assuming a 19.9% IPO of TIP REIT at a 15% IPO discount, the IPO would generate roughly $5.1bn in gross proceeds. After frictional costs and expenses, IPO proceeds of $3.0bn will be paid to retire Target debt and $1.6bn will remain at TIP REIT**

*$ in billions*

| | | |
|---|---|---|
| **TIP REIT Equity Value** | | **$27.0** |
| *Implied 2009E Dividend Yield* | | *5.0%* |

| | | | |
|---|---|---|---|
| **Captive TIP REIT Equity Value** | | **$24.0** | (1) |
| ***Discount*** | **15%** | **20.4** | |
| ***New Issuance*** | **19.9%** | **25.5** | |

| | | |
|---|---|---|
| **TIP REIT Post-IPO Equity Value** | **$28.6** | (2) |

| | | |
|---|---|---|
| **TIP REIT Gross IPO Proceeds** | **$5.1** | (3) |

***Use of IPO Proceeds:***

| | | |
|---|---|---|
| ***Retire Target Debt*** | **$3.0** | |
| ***Cash Remaining at TIP REIT*** | **1.6** | |
| ***Pay Frictional Costs and Fees*** | **0.5** | (4) |
| **Total IPO Proceeds** | **$5.1** | |

*(1) Calculation based on allocating and subsequently paying down $3.0bn of debt*
*(2) Calculation based on adding net proceeds of $4.6bn to captive TIP REIT equity value of $24.0bn; assumes cash balance of $1.6bn at TIP REIT upon IPO*
*(3) Assumes a 19.9% IPO of TIP REIT at a 15% IPO discount; net of paying $500mm after-tax frictional costs and fees, IPO proceeds are $4.6bn*
*(4) Assumes approximately $350mm of after-tax frictional costs and $150mm of IPO fees*

# Sources and Uses of Cash at Target Corp

**Proceeds from the IPO and the sale of the remaining interest in the credit card receivables can be used to pay down debt**

| Cash Sources ($bn) | |
|---|---|
| IPO Proceeds to Retire Target Debt | $3.0 |
| Credit Card Sale Proceeds | 4.4 |
| 1-Yr Cash Flow Generated at Target Corp (1) | 1.8 |
| **Total Cash Sources** | **$9.2** |

| Cash Uses ($bn) | |
|---|---|
| Paydown of Securitized Debt | $1.9 |
| Paydown of Unsecured Debt | 7.3 |
| **Total Cash Uses (Debt Paydown)** | **$9.2** |

*(1) Reflects cash flow generated after working capital, capex, and dividends; assumes maintenance of $500mm minimum cash balance; assumes TIP REIT funds land development capital expenditures of approximately $0.9bn by issuing debt during the first year post-IPO*

# Post Spin-off: Target Corp Credit Ratings

## Post Spin-off, Target Corp will maintain an "A" category credit ratings profile

| ($bn) | Target Standalone 2008E | Adjustments | Pro Forma Target Corp Post Spin-off |
|---|---|---|---|
| JPMorgan GAAP Liability | $3.6 | ($3.6) | - |
| Credit Card Securitized Debt | 1.9 | (1.9) | - |
| Unsecured Debt [1] | 12.3 | (7.3) | 5.0 |
| **Ending Debt** | **$17.8** | **($12.8)** | **$5.0** |
| *Plus:* Lease Adjusted Debt (8x Total Lease Expense) | 1.4 | | 13.6 |
| **Ending Lease Adj. Debt** | **$19.2** | | **$18.7** |
| **Lease Adj. Total Debt / EBITDAR** | **2.8x** [2] | | **2.6x** [3] |
| **Expected Ratings Profile** | **"A" Category** | | **"A" Category** |
| Memo: Rent Expense | 0.2 [2] | | 1.7 [3] |

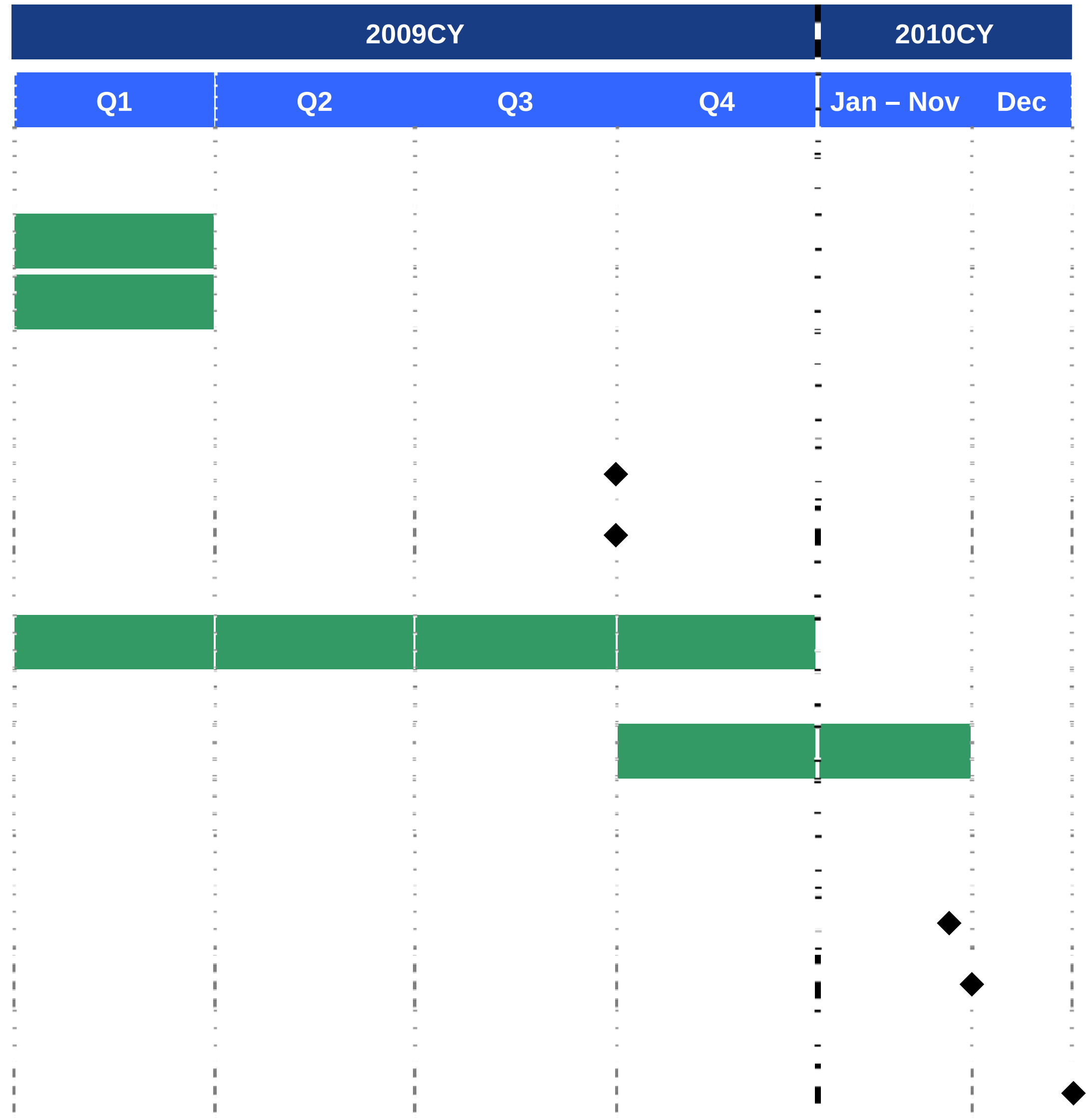
**$9.2bn of Total Debt Paydown**

(1) Based on $14.8bn of unsecured debt as of Q3 '08A, reduced in 4Q '08E by $2.5bn through debt pay down with free cash flow and cash on balance sheet (while maintaining $500mm minimum cash balance)

(2) Based on 2008E EBITDAR for Target Standalone of $6.9bn and 2008E Rent Expense of $0.2bn

(3) Based on 2010E EBITDAR for Target Corp post spin-off of $7.3bn and 2010E Rent Expense of $1.7bn

# Illustrative Timeline




## Step 1: TIP REIT Formation

**Contribute Land & Facilities Management Services to TIP REIT**

**Execute 75-year Master Lease with Target Corp**

## Step 2: TIP REIT IPO

**TIP REIT elects REIT status**

**Primary IPO of <20% of TIP REIT shares**

## Step 3: Sale of 53% Interest in CC Receivables

## Step 4: Debt Paydown

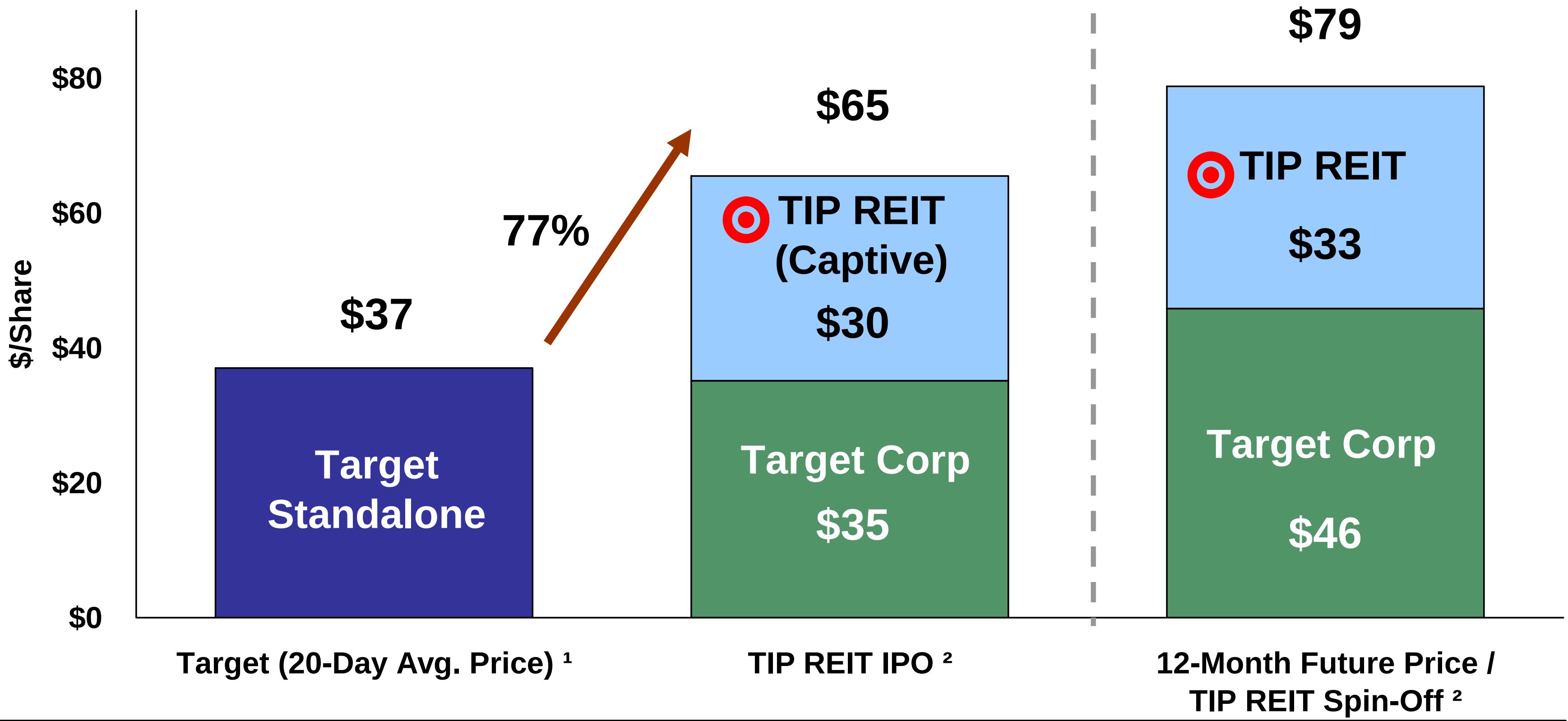
## Step 5: Spin-off of TIP REIT

**Target enters into inflation-swap agreement**

**Tax-free spin-off of remaining >80% interest in TIP REIT**

## Step 6: TIP REIT E&P Purge

# Valuation Analysis




| | | | | | | |
|---|---|---|---|---|---|---|
| Equity Value ($bn) | $28 | Target Corp | $26 | Equity Value ($bn) | $35 |
| Enterprise Value ($bn) | $37 | | $33 | Enterprise Value ($bn) | $39 |
| '09E EV/EBITDA | 5.8x | | 6.5x | '10E EV/EBITDA | 7.0x |
| '09E P/E | 11.4x | | 15.1x | '10E P/E | 16.8x |
| Equity Value ($bn) | | TIP REIT | $29 | Equity Value ($bn) | $31 |
| Enterprise Value ($bn) | | | $27 | Enterprise Value ($bn) | $30 |
| '09E Dividend Yield [3] | | | 5.0% | '10E Dividend Yield [3] | 4.8% |
| Cap Rate | | | 5.4% | Cap Rate | 5.1% |
| '09E P/AFFO [3] | | | 20.0x | '10E P/AFFO [3] | 21.0x |
| '09E EV/EBITDA | | | 19.1x | '10E EV/EBITDA | 20.1x |

Note: Target valuation assumes sale of remaining 53% interest on credit card receivables for $4.4bn, with Target retaining $150mm of credit card EBITDA
For illustrative purposes, assumes 19.9% REIT IPO occurs on 01/01/09 and full REIT Spin-off occurs on 01/01/10
*(1) Based on 20-day trading average as of 11/14/08; assumes sale of remaining 53% interest on credit card business with proceeds used to pay down debt*
*(2) Based on mid-point of valuation analysis*
*(3) Based on Adjusted Equity Value excluding cash balance of $1.6bn reserved for E&P distribution in 2010E*

# Tremendous Upside at Various Assumptions

**<u>At any plausible valuation of TIP REIT and Target Corp</u>, the Transaction results in a significant premium to the stock price of $37 / per share**

Value/Share ($)

TIP REIT '09E Dividend Yield

| Target Corp EV/ '09E EBITDA | 7.5% | 7.0% | 6.5% | 6.0% | 5.5% | 5.0% | 4.5% |
|---|---|---|---|---|---|---|---|
| **6.0x** | $52 | $54 | $55 | $57 | $59 | $62 | $65 |
| **6.5x** | 56 | 57 | 59 | 61 | 63 | 65 | 69 |
| **7.0x** | 59 | 60 | 62 | 64 | 66 | 68 | 72 |
| **7.5x** | 62 | 64 | 65 | 67 | 69 | 72 | 75 |
| **8.0x** | 66 | 67 | 69 | 70 | 73 | 75 | 78 |

Premium to $37 stock price (%)

TIP REIT '09E Dividend Yield

| Target Corp EV/ '09E EBITDA | 7.5% | 7.0% | 6.5% | 6.0% | 5.5% | 5.0% | 4.5% |
|---|---|---|---|---|---|---|---|
| **6.0x** | 41% | 45% | 49% | 54% | 60% | 67% | 76% |
| **6.5x** | 51% | 55% | 59% | 64% | 70% | 77% | 85% |
| **7.0x** | 59% | 63% | 67% | 72% | 78% | 85% | 94% |
| **7.5x** | 68% | 72% | 76% | 81% | 87% | 94% | 103% |
| **8.0x** | 77% | 81% | 85% | 90% | 96% | 103% | 112% |

# Benefits of the Revised Transaction

# Advantages of a Minority IPO of TIP REIT

**A <20% IPO of TIP REIT would have several important advantages**

- ✓ **Immediate value creation for Target shareholders**
  - Force a market revaluation of Target
  - Enable investors to value Target based on a sum-of-the-parts basis, using the public valuation of TIP REIT
- ✓ **Immediately improves Target’s access to capital through TIP REIT**
- ✓ **Increases Target’s liquidity, given ~$5bn of IPO proceeds**
- ✓ **<20% IPO is a tax-free transaction**
- ✓ **Maintains Target’s current “A” category credit rating**
- ✓ **Provides funds for debt paydown**
- ✓ **Preserves an “unwind” mechanism in the form of a buyback of the public minority stake of TIP REIT**

# Advantages of a Minority IPO of TIP REIT *(cont'd)*

**A Minority IPO would offer Target significant control and flexibility in executing the Revised Transaction**

✓ **Offers flexibility as to <u>when</u> Target:**

- Sells remaining interest in credit card receivables
- Completes TIP REIT spin-off
- Pays an E&P dividend ($1.6bn of cash in the calendar year of TIP REIT spin-off)

✓ **While maintaining control of TIP REIT, Target has the opportunity to:**

- "Test" the valuation of TIP REIT
- Fine tune the relationship between Target / TIP REIT on land development issues

# Pros and Cons of the Revised Transaction

**Assuming the spin-off of the remaining >80% interest in TIP REIT occurs in 2010, the Revised Transaction offers many pros and few cons**

## Pros

- ✓ Meaningfully accretive on all key measures (EPS, FCF/share)
- ✓ Maintains "A" category credit rating
- ✓ More than doubles dividends: $0.64/share today to $1.49 (1) share in 2010
- ✓ Improves capital access and decreases the need for growth capital at Target Corp
- ✓ Reduces taxes by over $510mm
- ✓ Improves Target's ROIC and EPS growth
- ✓ Increases the total stock price from $37/share to $79/share by 2010

## Cons

- ☒ **Dilution:** <20% IPO of TIP REIT results in some dilution to Target shareholders, versus the October 29th Transaction proposal, equivalent to ~$1.50 per share in total value (2)
- ☒ **Delay of certain benefits**: Certain benefits such as reduced taxes and increased dividends won't be fully achieved until the spin-off is complete

***Mitigating Factors:***

- ✓ *In the context of total value creation from Target's $37 stock price, the dilution is minimal*
- ✓ *Despite the longer transaction plan, the increased flexibility afforded to Target will significantly reduce execution risks*

*(1) Assumes a 19.9% IPO which increases TIP REIT's shares outstanding to approximately 940mm shares from 755mm shares pre-IPO*
*(2) Assumes a 15% IPO discount and a 19.9% IPO*

# Addressing Management's Concerns

| Concern | Benefits of the Revised Transaction |
|---|---|

## 1) Valuation

**Total Stock Price at Various '09E Dividend Yields and '09E Multiples**

| Target Corp EV/'09E EBITDA | TIP REIT '09E Dividend Yield: 7.5% | 7.0% | 6.5% | 6.0% | 5.5% | 5.0% | 4.5% |
|---|---|---|---|---|---|---|---|
| 6.0x | $52 | $54 | $55 | $57 | $59 | $62 | $65 |
| 6.5x | 56 | 57 | 59 | 61 | 63 | 65 | 69 |
| 7.0x | 59 | 60 | 62 | 64 | 66 | 68 | 72 |
| 7.5x | 62 | 64 | 65 | 67 | 69 | 72 | 75 |
| 8.0x | 66 | 67 | 69 | 70 | 73 | 75 | 78 |

✓ **Under any plausible valuation of TIP REIT, the Revised Transaction offers tremendous upside to Target's stock price of $37**

- At Target's current stock price of $37 and EV / '09E EBITDA multiple of 5.8x, the **implied dividend yield of TIP REIT is an improbable 16%**

✓ **IPO provides a seasoning period for TIP REIT**

- An IPO would give the investment community several quarters to value TIP REIT before it is spun off, effectively seasoning the market and attracting long-term investors

✓ **Potential "unwind" mechanism**

- Should the Company not be satisfied with TIP REIT's Transaction, Target can repurchase TIP REIT's public minority stake, effectively "unwinding" the structure

# Addressing Management's Concerns *(cont'd)*

| Concern | Benefits of the Revised Transaction |
|---|---|
| 2) Reduction in Target's financial flexibility and inflation risk | ✓ **Target pays down ~$9bn of debt, eliminating significant interest expense obligations**<br>▪ <20% IPO of TIP REIT provides the Company with the proceeds and flexibility to deleverage before the spin-off of the remaining interest in TIP REIT<br><br>✓ **Ground lease is more attractive than debt**<br>▪ TIP REIT ground lease is, in many ways, more attractive than Target's debt given the 75-year term, the lack of financial covenants, and the lack of refinancing risk<br><br>✓ **Inflation risk can be hedged out cheaply**<br>▪ Target can lock in 20-year inflation protection today at ~250 bps per year, which implies an annual after-tax cost of approximately $0.03/share |

# Addressing Management's Concerns *(cont'd)*

| Concern | Benefits of the Revised Transaction |
|---|---|
| 3) Credit ratings, borrowing costs, and liquidity | ✓ **Target will maintain its "A" category credit ratings at all times**<br>▪ Post spin-off of TIP REIT, Target Corp will maintain its "A" category credit rating as a result of deleveraging<br><br>✓ **Borrowing costs will not be impacted by the Revised Transaction**<br><br>✓ **The Revised Transaction offers several key credit benefits:**<br>▪ Target's liquidity is significantly increased given IPO proceeds<br>▪ Target's access to and cost of capital is improved by the formation of TIP REIT |

# Addressing Management's Concerns *(cont'd)*

| Concern | Benefits of the Revised Transaction |
|---|---|
| 4) Frictional costs and operational risks | ✓ **After-tax frictional costs are small in light of total value creation of $28-plus dollars per share**<br>■ Main frictional costs are professional fees (investment banking, legal, and accounting) and property taxes<br>■ After-tax frictional costs will likely be less than $1 per share<br>✓ **Operational risks are mitigated by the Revised Transaction given:**<br>■ The presence of an "unwind" mechanism<br>■ The ability to "test drive" the Target / TIP REIT relationship during the IPO period<br>✓ **Tax-free nature of spin-off** |

# Addressing Management's Concerns *(cont'd)*

| Concern | Benefits of the Revised Transaction |
|---|---|
| 5) Management diversion | ✓ **The formation of TIP REIT will require a modest amount of retail operating management's time**<br>▪ Predominantly <u>third-party</u> legal and accounting work<br>▪ CFO, EVP of Property Dev., and GC oversight required<br>▪ Other members of senior operating management largely uninvolved<br><br>✓ **The Transaction is akin to placing a master ground lease on Target's stores. It will be completely transparent and seamless to Target's core business**<br><br>✓ **IPO and eventual spin-off of TIP REIT will not distract Target's core business teams:**<br>▪ Merchandising / purchasing<br>▪ Marketing<br>▪ Regional and store-level<br>▪ IT / systems / administration<br>Vast majority of Target's team members will be uninvolved |

# Risk of the Status Quo

**In today's world, even the best retailers may lose access to capital**

- **The TIP REIT IPO transaction would immediately increase Target's access to capital**
  - TIP REIT will have strong access to the debt and equity capital markets, far better than any retailer
  - TIP REIT will be able to issue OP units for tax-efficient land acquisitions
- **This Transaction will best position Target to benefit from a weak competitive environment**
  - Given potential retailer bankruptcies, Target can use the liquidity provided by TIP REIT to acquire real estate that might be for sale at substantial discounts in the next 12-18 months

**The risk of the status quo is that Target may lose access to capital and not be able take advantage of the current environment**

# Why Is Now the Time?

**The Transaction requires several months of planning before an IPO is achievable. To complete an IPO even a year from now, work on this Revised Transaction will need to begin shortly**

- **Formation of TIP REIT and the issuance of pro forma financials will take several months**
  - Predominantly legal (lease structuring) and accounting work
  - Search for a management team and new board of directors for TIP REIT
- **To achieve a TIP REIT IPO in Q3 2009, the Company will need to authorize work on this Revised Transaction in the beginning of 2009**
- **In 2009, there could be opportunities for Target to benefit from a weak competitive landscape**
  - TIP REIT needs to be in place for the Company to best do so

# Fast Forward: 2010E and Beyond

**For investors with a longer-term view, the Revised Transaction offers explosive potential upside in 2010E and beyond**

## A turn in the economy would lead to

**Improved retail sales** → Potentially explosive earnings growth at Target Corp, particularly given recent expense reductions

**Heightened inflation expectations** → Increased demand for TIP REIT, given inflation-protected income stream

# Pershing's Relationship with Target

- Pershing has been in discussions with Target since May 2008 about a potential real estate transaction
- We appreciate Target's candid feedback and respect the Company's concerns
- Throughout this process, we have continually improved upon the transaction in an effort to create an outcome that satisfies Target's strategic goals and concerns

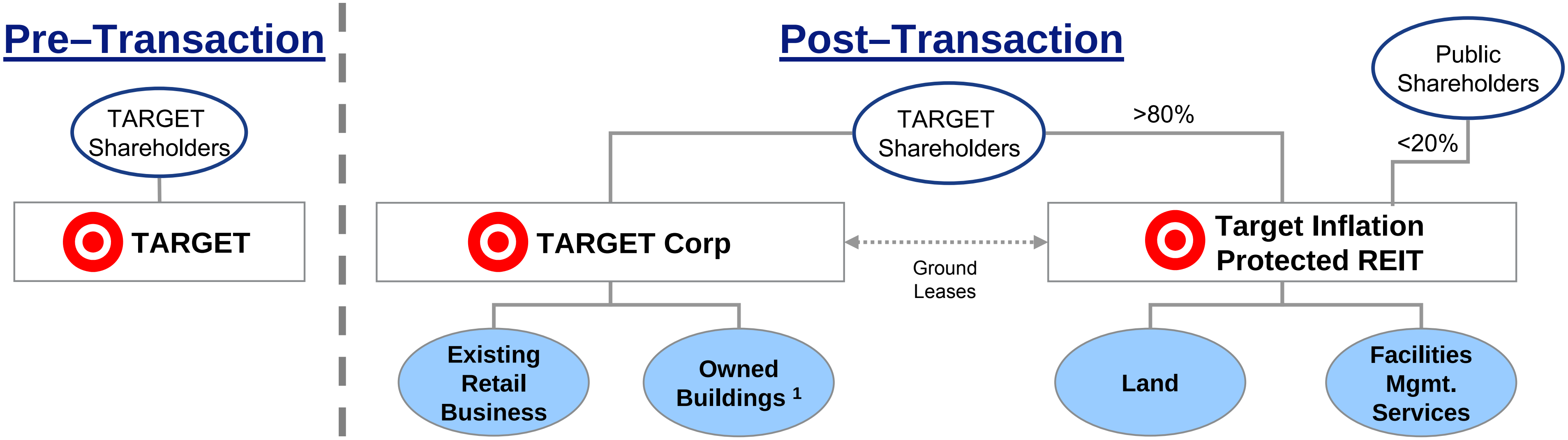
- **We believe our Revised Transaction addresses all of Target's concerns and achieves enormous value creation**

# Questions and Answers

# Appendix

# The Revised Transaction

**Tax-free IPO and spin of <u>Target Inflation Protected REIT</u> (or “TIP REIT”) as Groundlessor and Facility Manager**



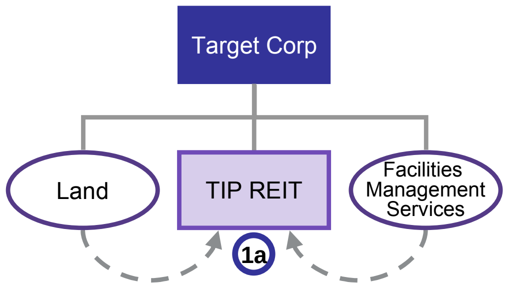

- **New Target Corp owns its buildings on 75-year ground leases**
- **Outsources Facilities Management Services**
- **Continues to maintain properties**

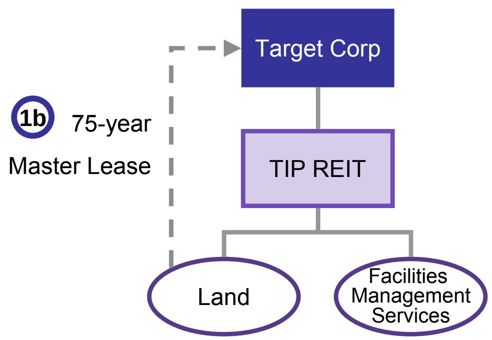
- **Leases back land to Target Corp through a Master Lease for a 75-year term**
- **Elects REIT status at the time of IPO**
- **Becomes Target Corp’s outsourced facilities management provider**
- **Becomes Target Corp’s Preferred Vendor for land procurement**

*(1) Includes third-party ground leases*

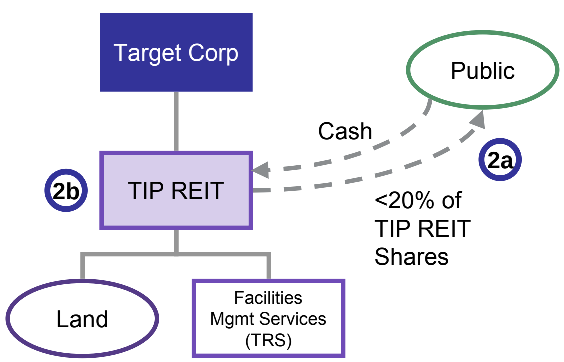
# *Revised Transaction:* Steps 1 - 2

## Step1: Formation of TIP REIT




## Step 2: IPO / REIT Election



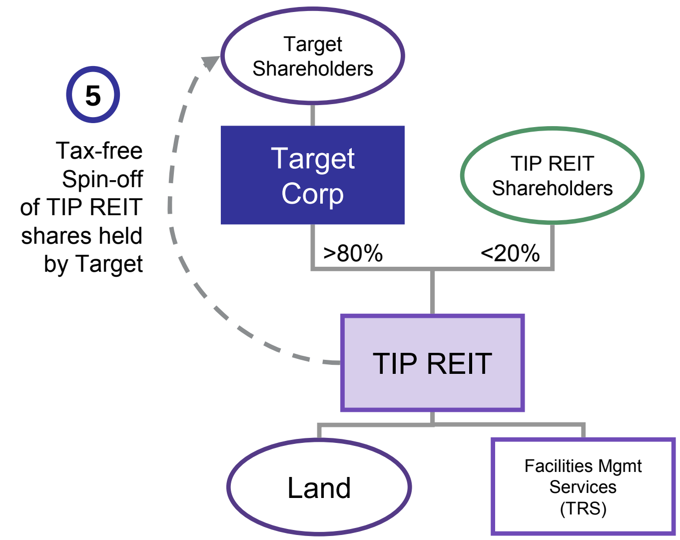

## Transaction Description

- **Step 1a:** The existing company ("Target Corp") forms a new subsidiary ("TIP REIT") and transfers to it the Facilities Management Services business, the owned land under the stores, and the owned land under the distribution facilities
  - TIP REIT will assume a portion of Target's liabilities
- **Step 1b:** TIP REIT leases the land back to Target Corp (i.e. the parent company) through a Master Lease for a 75-year term

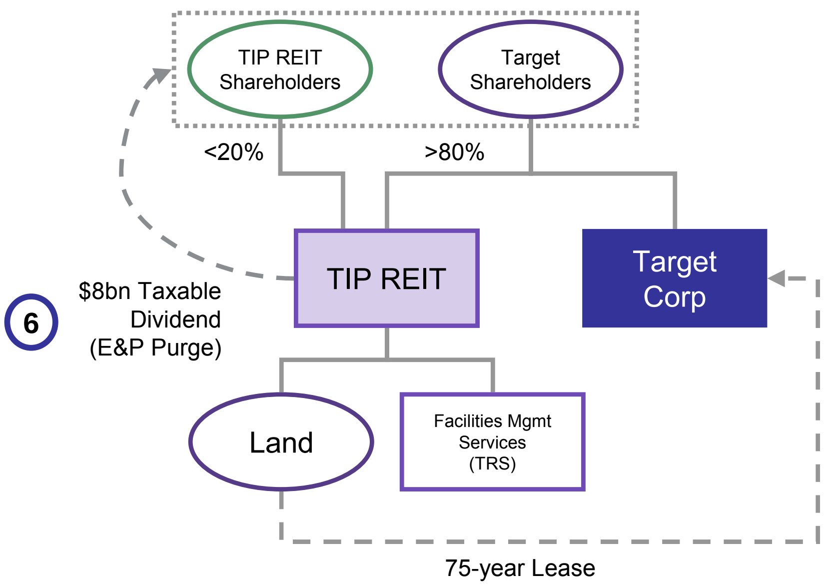
- **Step 2a:** After some period of time, TIP REIT offers up to 19.9% of its shares in a primary IPO for cash
  - Cash proceeds could be retained for corporate business purposes or used to reduce TIP REIT debt
- **Step 2b:** TIP REIT elects REIT status effective immediately
  - Simultaneously, TIP REIT drops the Facilities Management Services business into a new corporation, a taxable REIT subsidiary (TRS)

# *Revised Transaction:* Steps 3 - 6

## Step 5: Spin-off




## Step 6: E&P Purge




## Transaction Description

- **Step 3:** Target Corp sells the remaining 53% interest in the credit card receivables business to an Investment Partner
- **Step 4:** Target Corp pays down debt using proceeds from the credit card receivables and the TIP REIT pays down assumed debt using proceeds from the TIP REIT IPO
- **Step 5:** Target Corp spins off its remaining >80.1% interest in TIP REIT to its shareholders pro rata and tax-free
- **Step 6:** TIP REIT pays a taxable dividend (at the dividend tax rate to non-corporate taxpayers) to shareholders equal to its allocated portion of Target's $16bn of retained Earnings and Profits ("E&P"), estimated to be $8bn based on the implied mid-point valuation of TIP REIT/Target Corp
  - 20% of the dividend ($1.6bn) may be paid in cash with the remaining paid in TIP REIT common stock
  - This cash dividend can be deferred until the end of the calendar year in which the spin-off occurs

## Why are Treasury Inflation Protected Securities ("TIPS") the Best Comparable Security to TIP REIT?

# TIP REIT: (1) Valuing the TIP-like Security

**The TIP-like Security should trade at a small spread to TIPS of 195 – 245 bps**

| | Rate / Yield | Spread to TIPS |
|---|---|---|
| 20-year TIP Yield Today | 2.8% | — |
| + | | |
| Current TGT Unsecured CDS @ ~220bps ± 25 bps | 1.95% — 2.45% | 195 bps — 245 bps |
| = | | |
| TIP REIT: TIP-like Security | **4.75% — 5.25%** | **195 bps — 245 bps** |

**The current TIPS yield of 2.8% implies an expected 20-year inflation rate of only 1.6%. If the expected 20-year inflation rate increased to 2.0% and the 20-year Treasury rate remained constant, then the 20-year TIPS would yield 2.4% and TIP REIT would yield 4.35% – 4.85%. The higher the inflation rate, the more valuable TIP REIT will be**

# TIP REIT: (2) Valuing the Land Developer

**TIP REIT's land development opportunity can be valued based on its growth platform value**

- **Growth Platform Valuation**
  - Based on 20-year DCF analysis
  - Implied valuation at 4.75% – 5.25% cap rate and 10.5% – 12.5% discount rate
    - 2029E terminal NOI: $2,503mm
    - Valuation range of $0.0bn – $2.4bn

| | | 2009 | 2010 | 2011 | 2012 | 2013 | ... | Terminal Value (1) 2029 |
|---|---|---|---|---|---|---|---|---|
| Platform Value | Incremental Rental Revenues | $62 | $122 | $233 | $366 | $524 | | |
| | After-tax Facilities Management Income | 12 | 12 | 14 | 15 | 17 | | |
| | G&A Expense | (20) | (21) | (21) | (22) | (22) | | |
| | Total Capex | (890) | (830) | (1,539) | (1,801) | (2,117) | | |
| | Free Cash Flow from Platform | ($836) | ($716) | ($1,313) | ($1,442) | ($1,599) | | |
| | Terminal Value | | | | | | | $52,694 |
| | **Discount Rate** | **12.5%** | **10.5%** | | | | | |
| | **Terminal Cap Rate** | **5.25%** | **4.75%** | | | | | |
| | **Present Value of Platform** | **–** | **$2,387** | | | | | |

(1) Based on 2029E NOI of $2,503mm and 4.75% cap rate

# Valuation: TIP REIT in Total

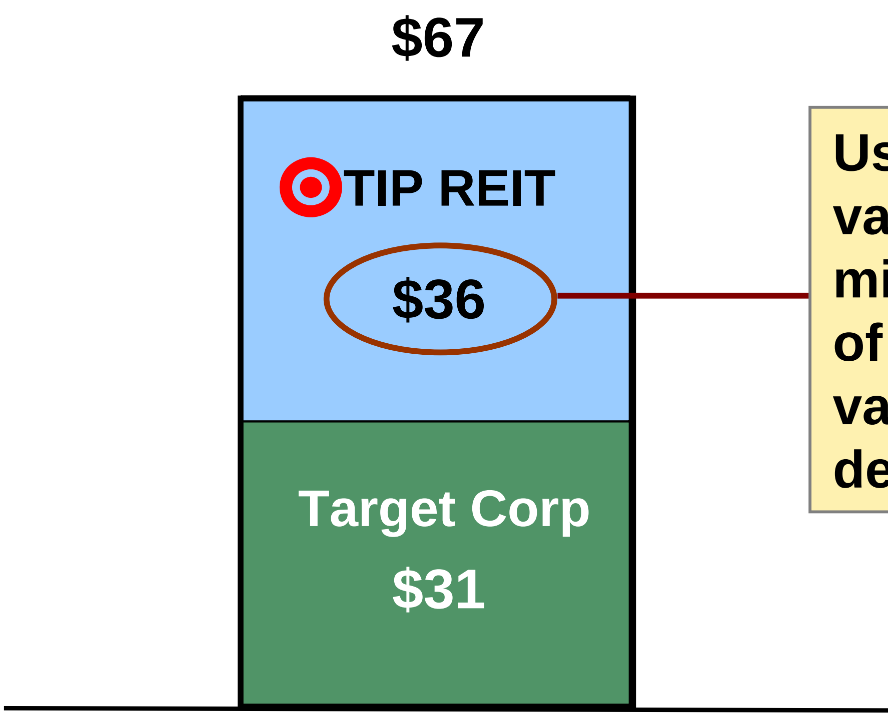
**Based on "TIPS"-based valuation of TIP REIT, the implied TIP REIT valuation is $28bn, or $38/share today**

| | Equity Value [1] | Implied Cap Rate [2] | Valuation |
|---|---|---|---|
| **TIP-like Security** | **$36/share** | **5.0%** | ■ 2008E Existing dividends: $1,356mm<br>■ Dividend yield: 4.75% – 5.25%<br>■ Valuation: $26bn – $29bn |
| + **Land Developer** | **$2/share** | | ■ 2029E NOI: $2,503mm<br>■ Terminal cap rate: 4.75% – 5.25%<br>■ Discount rate on 20-yr DCF: 10.5% – 12.5%<br>■ Valuation: $0.0bn – $2.4bn |
| = **Total TIP REIT** | **$38/share** | **5.1%** | ■ 2009E NOI of $1,452mm<br>■ Valuation: $26bn – $31bn or $34/share – $41/share |

(1) At mid-point valuation
(2) Implied yield calculated based on NOI / Implied value

# Conservative Approach to Valuation

**Our mid-point valuation price (pre-IPO) for TIP REIT of $36 (1) implies a 5.0% dividend yield for the TIPS-like security and (2) excludes the value of the Land Developer**




**TIP REIT Spin-off**
**Equity Value / Share**

**Using a “TIPS”-based valuation analysis, our mid-point valuation price of $36/share excludes the value of TIP REIT’s development platform**

## Why is TIP REIT More Valuable than a Private Ground Lease?

# Ground Leases Typically Trade from 5.50% to 6.25%

**Precedent private ground lease transactions support cap rates of approximately 5.50% – 6.25% for a typical ground lease with no development pipeline**

| Transaction | Tenant | Location | Building Size (Sq. Ft.) | Lot Size (Acres) | Cap Rate | Lease Term | Options | Total Lease Term with Options |
|---|---|---|---|---|---|---|---|---|
| For Sale | **Lowe's** | Princeton, WV | 116,000 | 14.16 | 6.61% | 20 Years | 6, Five-Year | 50 Years |
| For Sale | **Kohl's** | Selinsgrove, PA | 68,416 | 4.47 | 6.25% | 20 Years | 8, Five-Year | 60 Years |
| For Sale | **Lowe's** | Derby, CT | 152,890 | 13.10 | 5.50% | 20 Years | 8, Five-Year | 60 Years |
| For Sale | **Lowe's** | Eugene, OR | 137,933 | 12.30 | 6.25% | 20 Years | na | na |
| For Sale | **Wal-Mart** | Albuquerque, NM | 40,000 | 5.15 | 5.50% | 20 Years | 15, Five-Year | 95 Years |
| For Sale | **Kohl's** | Fort Gratiot, MI | 89,008 | 14.75 | 5.75% | 20 Years | 4, Five-Year | 40 Years |
| Sold | **Target** | Fairlawn, OH | 99,402 | 5.28 | 6.00% | 20 Years | 6, Five-Year | 50 Years |
| Sold - March 27, 2008 | **Lowe's** | Whitehall, PA | 166,609 | 14.24 | 6.05% | 20 Years | na | na |
| Sold - March 23, 2008 | **Home Depot** | Austell, GA | 130,948 | 14.46 | 5.75% | 20 Years | na | na |
| Sold - October 2007 | **Kohl's** | Reno, NV | 94,213 | 9.09 | 6.10% | na | na | na |
| Sold - September 2007 | **Lowe's** | Escondido, CA | 178,712 | 11.27 | 6.00% | 20 Years | 6, Five-Year | 50 Years |
| Sold - July 2007 | **Lowe's** | Sayre, PA | 111,371 | 12.50 | 6.25% | 20 Years | 8, Five-Year | 60 Years |

| | |
|---|---|
| **Mean** | **6.00%** |
| **Median** | **6.03%** |
| **High** | **6.61%** |
| **Low** | **5.50%** |

Source: LoopNet and other public filings

# Why is TIP REIT Better than a Private Ground Lease?

**TIP REIT offers better value to investors than a typical private ground lease**

- **TIP REIT has several qualities which make it more attractive than a private ground lease**
  - ✓ Large cap, liquid public ownership
  - ✓ 75-year Master Lease term (longer than most private ground leases)
  - ✓ 1,435 retail properties (1) in 48 states
  - ✓ Inflation-protected rental stream with annual adjustments
  - ✓ Best-in-class retail tenant
  - ✓ Geographic diversity
- **Unlike a static ground lease, <u>TIP REIT also has growth</u>, given its dependable new store growth pipeline**

**Given the above factors, TIP REIT will trade at a lower cap rate than an individual private ground lease**

(1) Represents 2008E Target Corp stores on TIP REIT land

# Revised Transaction: Financial Models

# Key Revised Assumptions in Models

**For illustrative purposes, we have assumed the sale of remaining 53% interest in the credit card business and the 19.9% IPO of TIP REIT occurring 1/1/09, to be followed by a full spin-off of TIP REIT on 1/1/10**

- **We have updated our model to reflect Q3 2008 results as well as new guidance provided by Target management on its earnings call on Monday, November 17, 2008**
- **Consolidated Model**
  - Assume TIP REIT is captive and fully consolidated with the retailer for accounting purposes
  - For illustrative purposes, financials show full consolidation of the captive REIT throughout the entire projection period (such consolidation would cease upon full spin-off on 1/1/10)
- **TIP REIT Model**
  - $1.6bn of cash E&P distribution now funded with proceeds from the 19.9% IPO of TIP REIT instead of additional debt
- **Target Corp Model**
  - Adjustments to opening balance sheet reflect de-consolidation of TIP REIT from Consolidated Model

# Model – Consolidated

# Consolidated Model – Income Statement

| ($mm) | Status Quo CY2007 | Status Quo CY2008 | Credit Card Adj. | 20% IPO TIP REIT | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 | CAGR '09 - '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Sales | 61,471 | 63,720 | | | 63,720 | 66,600 | 71,171 | 78,082 | 86,068 | 95,316 | 9.4% |
| *Base Sales Growth (%)* | | | | | | *4.5%* | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| Credit Revenue | 1,896 | 2,087 | (1,944) | | 144 | 150 | 160 | 176 | 194 | 215 | 9.4% |
| *Credit Sales Growth* | | | | | | *4.5%* | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| **Total Revenue** | **63,367** | **65,807** | | | **63,863** | **66,750** | **71,331** | **78,258** | **86,262** | **95,530** | 9.4% |
| *Total Revenue Growth* | | | | | | *4.5%* | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| COGS | 42,929 | 44,531 | | | 44,531 | 46,544 | 49,632 | 54,373 | 60,075 | 66,521 | |
| *% of Retail Sales* | *69.8%* | *69.9%* | | | *69.9%* | *69.9%* | *69.7%* | *69.6%* | *69.8%* | *69.8%* | |
| SG&A (excluding D&A and Rent Expense) | 12,392 | 12,899 | | 15 | 12,914 | 13,596 | 14,423 | 15,744 | 17,352 | 19,213 | |
| *% of Retail Sales* | *20.2%* | *20.2%* | | | *20.3%* | *20.4%* | *20.3%* | *20.2%* | *20.2%* | *20.2%* | |
| Credit Expenses | 950 | 1,520 | (1,520) | | - | - | - | - | - | - | |
| *% of Credit Revenue* | *50.1%* | *72.8%* | | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | |
| Retail EBITDAR | 6,150 | 6,290 | | | 6,275 | 6,460 | 7,117 | 7,965 | 8,641 | 9,582 | 10.4% |
| *Retail EBITDAR Margin (%)* | *10.0%* | *9.9%* | | | *9.8%* | *9.7%* | *10.0%* | *10.2%* | *10.0%* | *10.1%* | |
| Credit EBITDAR | 946 | 567 | (424) | | 144 | 150 | 160 | 176 | 194 | 215 | 9.4% |
| *Credit EBITDAR Margin (%)* | *49.9%* | *27.2%* | | | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | |
| **EBITDAR** | **7,096** | **6,857** | | | **6,418** | **6,610** | **7,277** | **8,140** | **8,834** | **9,796** | 10.3% |
| *EBITDAR Margin (%)* | *11.2%* | *10.4%* | | | *10.1%* | *9.9%* | *10.2%* | *10.4%* | *10.2%* | *10.3%* | |
| Rent Expense | 165 | 169 | | | 169 | 173 | 178 | 182 | 187 | 191 | |
| **EBITDA** | **6,931** | **6,688** | | | **6,249** | **6,436** | **7,099** | **7,958** | **8,648** | **9,605** | 10.5% |
| *EBITDA Margin (%)* | *10.9%* | *10.2%* | | | *9.8%* | *9.6%* | *10.0%* | *10.2%* | *10.0%* | *10.1%* | |
| Depreciation & Amortization | 1,659 | 1,819 | | | 1,819 | 1,940 | 2,073 | 2,274 | 2,507 | 2,776 | |
| *% of Retail Sales* | *2.7%* | *2.9%* | | | *2.9%* | *2.9%* | *2.9%* | *2.9%* | *2.9%* | *2.9%* | |
| **Operating Income** | **5,272** | **4,870** | | | **4,431** | **4,496** | **5,026** | **5,684** | **6,141** | **6,829** | 11.0% |
| Net Interest (Income) / Expense | 647 | 942 | (440) | (232) | 270 | 333 | 352 | 422 | 469 | 515 | |
| Income Tax Provision | 1,776 | 1,545 | | | 1,519 | 1,469 | 1,659 | 1,879 | 2,032 | 2,272 | |
| *Tax Rate (%)* | *38%* | *39%* | | | *36%* | *35%* | *35%* | *36%* | *36%* | *36%* | |
| Minority Interest Expense | | | | 259 | 259 | 257 | 266 | 273 | 280 | 289 | |
| **Net Income** | **2,849** | **2,383** | | | **2,383** | **2,438** | **2,750** | **3,110** | **3,360** | **3,753** | 11.4% |
| *Net Income Margin (%)* | *4.5%* | *3.6%* | | | *3.7%* | *3.7%* | *3.9%* | *4.0%* | *3.9%* | *3.9%* | |
| Current Diluted Shares Outstanding | 882.6 | 819.0 | | | 819.0 | 754.7 | 754.7 | 702.1 | 688.3 | 678.3 | |
| Shares Repurchase | (63.7) | (64) | | | (64.3) | 0.0 | (52.5) | (13.8) | (10.0) | (7.2) | |
| Share Repurchase from Options | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total Shares Outstanding | 819.0 | 754.7 | | | 754.7 | 754.7 | 702.1 | 688.3 | 678.3 | 671.1 | |
| Weighted Average Shares Outstanding | 850.8 | 773.7 | | | 773.7 | 754.7 | 728.4 | 695.2 | 683.3 | 674.7 | |
| **Earnings per Share ($)** | **$3.33** | **$3.08** | | | **$3.08** | **$3.23** | **$3.78** | **$4.47** | **$4.92** | **$5.56** | 14.6% |

# Consolidated Model – Balance Sheet

| ($mm) | Status Quo CY2007 | Status Quo CY2008 | Credit Card Adj. | 20% IPO TIP REIT | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash & Equivalents | 2,450 | 500 | 0 | 1,600 | 2,100 | 2,100 | 500 | 500 | 500 | 500 |
| Trade Receivables | 8,054 | 8,249 | (8,249) | | - | - | - | - | - | - |
| Other Current Assets | 8,402 | 8,903 | | | 8,903 | 9,305 | 9,944 | 10,909 | 12,025 | 13,317 |
| Property, Plant & Equipment, gross | 31,982 | 35,316 | | | 35,316 | 38,427 | 41,510 | 46,271 | 51,715 | 57,993 |
| Accumulated Depreciation | (7,887) | (9,265) | | | (9,265) | (11,205) | (13,278) | (15,552) | (18,059) | (20,836) |
| Property, Plant & Equipment, net | 24,095 | 26,051 | | | 26,051 | 27,223 | 28,233 | 30,719 | 33,656 | 37,157 |
| Other Non-Current Assets | 1,559 | 1,277 | | | 1,277 | 1,277 | 1,277 | 1,277 | 1,277 | 1,277 |
| **Total Assets** | **44,560** | **44,980** | | | **38,331** | **39,905** | **39,953** | **43,405** | **47,458** | **52,251** |
| Debt | 17,090 | 17,811 | (8,000) | (2,974) | 6,837 | 5,925 | 6,675 | 7,425 | 8,175 | 8,925 |
| Other Current Liabilities | 9,818 | 10,373 | | | 10,373 | 10,842 | 11,586 | 12,711 | 14,011 | 15,516 |
| Other Non-Current Liabilities | 2,345 | 2,521 | | | 2,521 | 2,521 | 2,521 | 2,521 | 2,521 | 2,521 |
| **Total Liabilities** | **29,253** | **30,705** | | | **19,731** | **19,288** | **20,782** | **22,657** | **24,707** | **26,963** |
| Minority Interest | 0 | 0 | | 4,574 | 4,574 | 4,563 | 4,550 | 4,533 | 4,511 | 4,485 |
| Total Equity | 15,307 | 14,275 | (249) | | 14,026 | 16,054 | 14,622 | 16,215 | 18,239 | 20,804 |
| **Total Equity & Liabilities** | **44,560** | **44,980** | | | **38,331** | **39,905** | **39,953** | **43,405** | **47,458** | **52,251** |

# Consolidated Model – Cash Flow Statement

| ($mm) | | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| EBITDA | | 6,688 | 6,436 | 7,099 | 7,958 | 8,648 | 9,605 |
| less: Interest Expense | | (270) | (333) | (352) | (422) | (469) | (515) |
| less: Taxes | | (1,545) | (1,469) | (1,659) | (1,879) | (2,032) | (2,272) |
| less: Dividends Paid to Minorities | | (268) | (268) | (279) | (289) | (302) | (315) |
| Share-based Compensation | | 73 | 73 | 73 | 73 | 73 | 73 |
| less: Increase in Net Working Capital | | 54 | 66 | 105 | 159 | 184 | 213 |
| less: Increase Funding of CC Growth | | 0 | 0 | 0 | 0 | 0 | 0 |
| **Cash Flow from Operating Activities** | | **4,733** | **4,506** | **4,988** | **5,600** | **6,103** | **6,789** |
| Capital Expenditures | | (3,820) | (3,111) | (3,083) | (4,761) | (5,444) | (6,277) |
| **Cash Flow from Investing Activities** | | **(3,820)** | **(3,111)** | **(3,083)** | **(4,761)** | **(5,444)** | **(6,277)** |
| Issuance of Debt | | | 0 | 750 | 750 | 750 | 750 |
| Repayment of Debt | | | (912) | (0) | 0 | 0 | 0 |
| Issuance of Equity / (Buy Back) | | | 0 | (3,760) | (1,089) | (890) | (722) |
| Issuance of Dividends to Common | | | (483) | (495) | (501) | (519) | (540) |
| **Cash Flow from Financing Activities** | | | **(1,395)** | **(3,505)** | **(839)** | **(659)** | **(512)** |
| Beginning Cash Balance | | | 2,100 | 2,100 | 500 | 500 | 500 |
| Change in Cash | | | 0 | (1,600) | 0 | 0 | 0 |
| **Ending Cash Balance** | | | **2,100** | **500** | **500** | **500** | **500** |
| Average Cash Balance | | | 2,100 | 1,300 | 500 | 500 | 500 |
| Interest Income | 3.0% | | 63 | 39 | 15 | 15 | 15 |

# Consolidated Model – Build-ups and Credit Metrics

| Sales Buildup | Status Quo CY2007 | Pro Forma CY2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| | | | Calendar Year, | | | | |
| Square Feet (mm) | 208 | 222 | 231 | 239 | 254 | 270 | 289 |
| $ / Sq. Ft. | 296 | 286 | 288 | 297 | 308 | 318 | 330 |
| Retail Sales | 61,471 | 63,720 | 66,600 | 71,171 | 78,082 | 86,068 | 95,316 |
| Implied Retail Sales Growth (%) | | 3.7% | 4.5% | 6.9% | 9.7% | 10.2% | 10.7% |
| Sq. Footage Growth (%) | | 7.0% | 4.0% | 3.5% | 6.0% | 6.5% | 7.0% |
| SSS Growth (%) | | (3.1%) | 0.5% | 3.3% | 3.5% | 3.5% | 3.5% |

| CapEx Buildup | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Total System CapEx | 4,369 | 3,820 | 3,111 | 3,083 | 4,761 | 5,444 | 6,277 |
| *CapEx as % of Retail Sales* | *7.1%* | *6.0%* | *4.7%* | *4.3%* | *6.1%* | *6.3%* | *6.6%* |

| Credit Metrics | | Status Quo CY2007 | Status Quo CY2008 | Pro Forma CY2008 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Lease Adjusted Debt | 8 x | 1,320 | 1,353 | 1,353 | 1,387 | 1,421 | 1,457 | 1,493 | 1,531 |
| Actual Debt | | 17,090 | 17,811 | 6,837 | 5,925 | 6,675 | 7,425 | 8,175 | 8,925 |
| Total Lease Adjusted Debt | | 18,410 | 19,164 | 8,190 | 7,312 | 8,097 | 8,882 | 9,669 | 10,456 |
| Total Lease Adjusted Debt/EBITDAR | | 2.6 x | 2.8 x | 1.3 x | 1.1 x | 1.1 x | 1.1 x | 1.1 x | 1.1 x |
| Total Debt / EBITDA | | 2.5 x | 2.7 x | 1.1 x | 0.9 x | 0.9 x | 0.9 x | 0.9 x | 0.9 x |
| EBITDAR / (Interest + Rent) | | 8.7 x | 6.2 x | 14.6 x | 13.1 x | 13.7 x | 13.5 x | 13.5 x | 13.9 x |
| EBITDA / Interest | | 10.7 x | 7.1 x | 23.2 x | 19.3 x | 20.2 x | 18.9 x | 18.5 x | 18.6 x |

# Consolidated Model – Tax Adjustments

| ($mm) | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Profit Before Taxes | 4,161 | 4,164 | 4,674 | 5,262 | 5,672 | 6,313 |
| *Tax Rate (%)* | *39%* | *38%* | *38%* | *38%* | *38%* | *38%* |
| **Taxes** | **1,636** | **1,582** | **1,776** | **1,999** | **2,155** | **2,399** |
| | | | | | | |
| Less: State Tax Savings | (16) | (16) | (16) | (16) | (17) | (17) |
| Less: Tax Adj. for Public REIT Shareholders | (102) | (98) | (101) | (104) | (106) | (110) |
| Less: Facilities Mgmt Tax Adj. | (0) | (0) | (0) | (0) | (0) | (0) |
| **Net Consolidated Taxes** | **1,519** | **1,469** | **1,659** | **1,879** | **2,032** | **2,272** |
| | | | | | | |
| **Adjustment Calculations:** | | | | | | |
| **State Tax Savings:** | | | | | | |
| Total REIT Net Income | 1,303 | 1,292 | 1,334 | 1,370 | 1,408 | 1,450 |
| Net Income to Other Shareholders | 259 | 257 | 266 | 273 | 280 | 289 |
| Net Income to Target | 1,044 | 1,035 | 1,069 | 1,097 | 1,128 | 1,161 |
| *Assumed Tax Rate (150bps less than current rate)* | *38%* | *37%* | *37%* | *37%* | *37%* | *37%* |
| **Total State Tax Savings** | **(16)** | **(16)** | **(16)** | **(16)** | **(17)** | **(17)** |
| | | | | | | |
| **Facilities Management Adjustments:** | | | | | | |
| Facilities Mgmt Income | 19 | 19 | 20 | 22 | 24 | 27 |
| Facilities Mgmt Taxes | 7 | 7 | 8 | 8 | 9 | 10 |
| Minority Interest on Taxes | (1) | (1) | (2) | (2) | (2) | (2) |
| **Target Share of Facilities Mgmt Income** | **10** | **10** | **11** | **12** | **13** | **15** |
| *Adjustment for Dividend Received Deduction* | *12%* | *11%* | *11%* | *11%* | *11%* | *11%* |
| Incremental Facilities Mgmt Adj. | 1 | 1 | 1 | 1 | 2 | 2 |
| **Total Facilities Management Tax Adj.** | **(0)** | **(0)** | **(0)** | **(0)** | **(0)** | **(0)** |

# Model – TIP REIT

# TIP REIT Model – Income Statement

| ($mm, except as noted) | | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Gross TIP REIT Revenues from Ground-leased Store Land | | 1,327 | 1,389 | 1,482 | 1,625 | 1,789 | 1,980 |
| Gross TIP REIT Revenues from Ground-leased DCs & WHs Land | | 44 | 44 | 45 | 49 | 52 | 56 |
| Total Gross TIP REIT Revenues | | 1,371 | 1,433 | 1,527 | 1,673 | 1,842 | 2,037 |
| **Total TIP REIT Net Rental Revenues** | | **1,371** | **1,433** | **1,527** | **1,673** | **1,842** | **2,037** |
| *% of Target Corp Retail Sales* | | *2.2%* | *2.2%* | *2.1%* | *2.1%* | *2.1%* | *2.1%* |
| Plus: Facilities Management Income | | 144 | 144 | 154 | 169 | 186 | 206 |
| Less: Facilities Management Expense | | (125) | (125) | (134) | (147) | (162) | (179) |
| **Net Facilities Management Income** | | **19** | **19** | **20** | **22** | **24** | **27** |
| **Net Operating Income** | | **1,389** | **1,452** | **1,547** | **1,695** | **1,866** | **2,063** |
| Less: G&A Expense | | (20) | (20) | (21) | (21) | (22) | (22) |
| Less: Incremental Standalone Cost | | (15) | (15) | (15) | (16) | (16) | (17) |
| **EBITDA** | | **1,354** | **1,417** | **1,511** | **1,659** | **1,828** | **2,025** |
| Less: Depreciation & Amortization | | (44) | (55) | (66) | (85) | (108) | (134) |
| Less: Interest Expense | | - | (62) | (103) | (196) | (304) | (431) |
| Less: Taxes on Facilities Mgmt. Income | 38% | (7) | (7) | (8) | (8) | (9) | (10) |
| **Net Income** | | **1,303** | **1,292** | **1,334** | **1,370** | **1,408** | **1,450** |
| **Normalized Net Income [(1)]** | | **1,303** | **1,292** | **1,334** | **1,370** | **1,408** | **1,450** |
| Ending Shares Outstanding | | 942.1 | 942.1 | 942.1 | 942.1 | 942.1 | 942.1 |
| **Earnings per Share** | | **$1.38** | **$1.37** | **$1.42** | **$1.45** | **$1.49** | **$1.54** |
| **Normalized Earnings per Share [(1)]** | | **$1.38** | **$1.37** | **$1.42** | **$1.45** | **$1.49** | **$1.54** |
| | % AFFO | | | | | | |
| **Dividends on Common** | 100.0% | **1,347** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| **Special Dividends [(2)]** | | **-** | **-** | **-** | **-** | **-** | **-** |
| **Normalized Dividends [(1)]** | | **1,347** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| **Normalized Dividends per Share [(1)]** | | **$1.43** | **$1.43** | **$1.49** | **$1.54** | **$1.61** | **$1.68** |

(1) Normalized to exclude incremental interest expense due to CY2010 cash E&P distribution
(2) $1.6bn of proceeds from a 19.9% IPO of TIP REIT used to pay cash E&P distribution in CY 2010

# TIP REIT Model – Balance Sheet

| ($mm, except as noted) | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Real Estate: | | | | | | |
| Gross Existing Properties - Land & Improvements | 11,833 | 11,833 | 11,833 | 11,833 | 11,833 | 11,833 |
| Maintenance Capex | | - | - | - | - | - |
| Development Properties - Land & Improvements | | 890 | 1,720 | 3,258 | 5,059 | 7,176 |
| Accumulated Depreciation | (885) | (941) | (1,007) | (1,092) | (1,199) | (1,333) |
| Net Real Estate Asset | 10,948 | 11,782 | 12,546 | 14,000 | 15,693 | 17,677 |
| Cash | - | 3 | 3 | 3 | 3 | 3 |
| **Total Assets** | **10,948** | **11,785** | **12,549** | **14,003** | **15,696** | **17,680** |
| Debt: | | | | | | |
| Revolver | - | 3 | 3 | 3 | 3 | 3 |
| New Debt | - | 890 | 1,720 | 3,258 | 5,059 | 7,176 |
| Total Debt | - | 893 | 1,723 | 3,261 | 5,062 | 7,179 |
| Common Equity | 10,948 | 10,948 | 10,948 | 10,948 | 10,948 | 10,948 |
| Retained Earnings (Deficit) | | (55) | (121) | (206) | (314) | (448) |
| Total Equity | 10,948 | 10,892 | 10,827 | 10,742 | 10,634 | 10,500 |
| **Total Liabilities & Equity** | **10,948** | **11,785** | **12,549** | **14,003** | **15,696** | **17,680** |

# TIP REIT Model – Cash Flow Statement

| ($mm, except as noted) | Calendar Year, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** |
| Cash Flow from Operating Activities: | | | | | |
| EBITDA | 1,417 | 1,511 | 1,659 | 1,828 | 2,025 |
| Less: Interest Expense | (62) | (103) | (196) | (304) | (431) |
| Less: Taxes on Facilities Mgmt. Income | (7) | (8) | (8) | (9) | (10) |
| **Net Cash Flow from Operating Activities** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| | | | | | |
| Cash Flow from Investing Activities: | | | | | |
| Development Capex | (890) | (830) | (1,539) | (1,801) | (2,117) |
| Maintenance Capex | - | - | - | - | - |
| **Net Cash Flow from Investing Activities** | **(890)** | **(830)** | **(1,539)** | **(1,801)** | **(2,117)** |
| | | | | | |
| Cash Flow from Financing Activities: | | | | | |
| *Debt Financing:* | | | | | |
| Increase (Decrease) in Revolver | 3 | - | - | - | - |
| Increase (Decrease) in New Debt | 890 | 830 | 1,539 | 1,801 | 2,117 |
| *Equity Financing:* | | | | | |
| Increase (Decrease) in Common Equity | - | - | - | - | - |
| Dividends on Common | (1,347) | (1,400) | (1,455) | (1,515) | (1,584) |
| Special Dividends | - | - | - | - | - |
| **Net Cash Flow from Financing Activities** | **(455)** | **(570)** | **84** | **285** | **533** |
| | | | | | |
| Beginning Cash Balance | - | 3 | 3 | 3 | 3 |
| Net Change in Cash | 3 | - | - | - | - |
| **Ending Cash Balance** | **3** | **3** | **3** | **3** | **3** |

# TIP REIT Model – Rent Build-up

| Assumptions ($mm, except as noted): | Count | | Pro Forma CY2008 | 2009 | 2010 | 2011 | 2012 | 2013 | CAGR '09 - '13 |
|---|---|---|---|---|---|---|---|---|---|
| **Total Combined Stores - Sq. Ft.** | Count | | | | | | | | |
| Owned Stores | 1,435 | | 190 | 198 | 207 | 221 | 237 | 256 | |
| Combined (Ground-leased) Stores | 176 | | 23 | 23 | 23 | 23 | 23 | 23 | |
| Third-party Leased Stores | 73 | | 10 | 10 | 10 | 10 | 10 | 10 | |
| Total Combined Stores Square Footage | | | 222 | 231 | 239 | 254 | 270 | 289 | 5.7% |
| *Total Combined Stores Square Footage Growth* | | | | *4.0%* | *3.5%* | *6.0%* | *6.5%* | *7.0%* | |
| **TIP REIT Stores - Sq. Ft.** | Count | | | | | | | | |
| Owned Stores | 1,435 | Yes | 190 | 198 | 207 | 221 | 237 | 256 | |
| **Total TIP REIT Stores Square Footage** | | | **190** | **198** | **207** | **221** | **237** | **256** | 6.6% |
| *Total TIP REIT Stores Square Footage Growth* | | | | *4.7%* | *4.1%* | *7.0%* | *7.5%* | *8.0%* | |
| **Total Combined DCs & WHs - Sq. Ft.** | Count | | | | | | | | |
| Owned DCs & WHs | 25 | | 35 | 35 | 35 | 37 | 39 | 41 | |
| Combined (Ground-leased) DCs & WHs | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | |
| Third-party Leased DCs & WHs | 5 | | 7 | 7 | 7 | 7 | 7 | 7 | |
| Total Combined DCs & WHs Square Footage | | | 44 | 44 | 44 | 46 | 47 | 49 | 3.0% |
| *Total DCs & WHs Sq. Ft. vs. Total Combined Stores Sq. Ft.* | | | *19.6%* | *18.9%* | *18.2%* | *18.0%* | *17.5%* | *17.0%* | |
| **TIP REIT DCs & WHs - Sq. Ft.** | Count | | | | | | | | |
| Owned DCs & WHs | 25 | Yes | 35 | 35 | 35 | 37 | 39 | 41 | |
| **Total TIP REIT DCs & WHs Square Footage** | | | **35** | **35** | **35** | **37** | **39** | **41** | 3.7% |
| *Total TIP REIT DCs & WHs Square Footage Growth* | | | | *0.0%* | *0.0%* | *5.7%* | *4.3%* | *4.8%* | |
| Rent / Square Foot - Store Land | | | $7.00 | $7.00 | $7.18 | $7.35 | $7.54 | $7.73 | |
| *CPI Growth* | | | | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | |
| *Average Growth* | | | | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | |
| TIP REIT Revenues from Ground-leased Land | | | 1,327 | 1,389 | 1,482 | 1,625 | 1,789 | 1,980 | 9.3% |
| Rent / Square Foot - DCs & WHs Land | | | $1.25 | $1.25 | $1.28 | $1.31 | $1.35 | $1.38 | |
| *CPI Growth* | | | | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | |
| *Average Growth* | | | | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | |
| TIP REIT Revenues from Ground-leased DCs & WHs | | | 44 | 44 | 45 | 49 | 52 | 56 | 6.3% |
| **Total TIP REIT Gross Revenues** | | | **1,371** | **1,433** | **1,527** | **1,673** | **1,842** | **2,037** | 9.2% |

# TIP REIT Model – FFO & AFFO Reconciliations, Credit Statistics and Implied Metrics

| FFO & AFFO Reconciliations: | | Pro Forma CY2008 | Calendar Year, 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Net Income | | 1,303 | 1,292 | 1,334 | 1,370 | 1,408 | 1,450 |
| Plus: Depreciation & Amortization | | 44 | 55 | 66 | 85 | 108 | 134 |
| **Funds from Operations** | | **1,347** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| Ending Shares Outstanding | | 942.1 | 942.1 | 942.1 | 942.1 | 942.1 | 942.1 |
| **FFO / Share** | | **$1.43** | **$1.43** | **$1.49** | **$1.54** | **$1.61** | **$1.68** |
| Less: Maintenance Capex | | - | - | - | - | - | - |
| **Adjusted Funds from Operations** | | **1,347** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| **Normalized AFFO (1)** | | **1,347** | **1,347** | **1,400** | **1,455** | **1,515** | **1,584** |
| **Credit Statistics:** | | | | | | | |
| Coverage: | | | | | | | |
| EBITDA / Interest Expense | | | 22.7x | 14.6x | 8.5x | 6.0x | 4.7x |
| (EBITDA - Maintenance Capex) / Interest Expense | | | 22.7x | 14.6x | 8.5x | 6.0x | 4.7x |
| Leverage: | | | | | | | |
| Total Debt / EBITDA | | | 0.6x | 1.1x | 2.0x | 2.8x | 3.5x |
| Capitalization: | | | | | | | |
| Total Debt / Total Real Estate Value | | | 3.7% | 6.7% | 11.6% | 16.4% | 21.1% |
| *(NOI capped at 6.0% and 8.5% for store land and DCs & WHs land, respectively)* | | | | | | | |
| **Implied Metrics:** | | | | | | | |
| **Incremental Stores Square Footage** | | | **9** | **8** | **14** | **16** | **19** |
| SuperTarget Stores | 50.0% | | 4 | 4 | 7 | 8 | 9 |
| Implied New Combined SuperTarget Stores | 0.177 Sq. Ft. / SuperTarget | | 25 | 23 | 41 | 47 | 54 |
| *% of Total New Stores Built* | | | 41.0% | 41.8% | 41.4% | 41.6% | 41.5% |
| **Combined Total Number of SuperTarget Stores** | | **239** | **264** | **287** | **328** | **375** | **429** |
| General Merchandise Stores | 50.0% | | 4 | 4 | 7 | 8 | 9 |
| Implied New Combined GM Stores | 0.125 Sq. Ft. / GM | | 36 | 32 | 58 | 66 | 76 |
| *% of Total New Stores Built* | | | 59.0% | 58.2% | 58.6% | 58.4% | 58.5% |
| **Combined Total Number of General Merchandise Stores** | | **1,445** | **1,481** | **1,513** | **1,571** | **1,637** | **1,713** |
| **Total Implied New Stores** | | | **61** | **55** | **99** | **113** | **130** |
| **Cumulative Combined Total Implied Stores** | | **1,684** | **1,745** | **1,800** | **1,899** | **2,012** | **2,142** |
| Incremental DCs & WHs Square Footage | | | - | - | 2 | 2 | 2 |
| Implied Combined New DCs & WHs | 1.408 | | 0 | 0 | 1 | 1 | 1 |
| **Total Implied New DCs & WHs** | | | **0** | **0** | **1** | **1** | **1** |
| **Cumulative Combined Total Implied DCs & WHs** | | **31** | **31** | **31** | **32** | **34** | **35** |

(1) Normalized to exclude incremental interest expense due to CY2010 cash E&P distribution

# TIP REIT Model – Capex Schedule

| ($mm, except as noted) | | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | | **Calendar Year,** | | | | |
| **Total Combined Expenditures** | | **3,111** | **3,083** | **4,761** | **5,444** | **6,277** |
| | | | | | | |
| **Maintenance / Retail Capital Expenditures** | | **1,332** | **1,423** | **1,638** | **1,806** | **2,000** |
| Target Corp - Store Buildings | | 1,332 | 1,423 | 1,638 | 1,806 | 2,000 |
| TIP REIT | | - | - | - | - | - |
| | | | | | | |
| **Development Capital Expenditures** | | **1,779** | **1,660** | **3,122** | **3,638** | **4,278** |
| Target Corp Building - Store and DCs & WHs | 71.4% | 890 | 830 | 1,583 | 1,837 | 2,160 |
| TIP REIT Land - Store and DCs & WHs | 28.6% | 890 | 830 | 1,539 | 1,801 | 2,117 |
| Target Corp - Other | | - | - | - | - | - |
| | | | | | | |
| TIP REIT Land - Store | | 890 | 830 | 1,509 | 1,776 | 2,088 |
| ***Store Land Cost per Square Foot*** | | **$100.00** | **$102.50** | **$105.06** | **$107.69** | **$110.38** |
| TIP REIT Land - DCs & WHs | | - | - | 30 | 24 | 29 |
| ***DCs & WHs Land Cost per Square Foot*** | | **$14.00** | **$14.35** | **$14.71** | **$15.08** | **$15.45** |
| | | | | | | |
| TIP REIT Land - Store | Yes | 890 | 830 | 1,509 | 1,776 | 2,088 |
| TIP REIT Land - DCs & WHs | Yes | - | - | 30 | 24 | 29 |
| | | | | | | |
| **Total Development Capex** | | **890** | **830** | **1,539** | **1,801** | **2,117** |
| | | | | | | |
| Development Financing Sources: | | | | | | |
| Debt Financing | 100% | 890 | 830 | 1,539 | 1,801 | 2,117 |
| Equity Financing | 0% | - | - | - | - | - |

# Model – Target Corp

# Target Corp Model – Income Statement

| ($mm) | Status Quo CY2009 | REIT Adj. | Pro Forma CY2009 | Calendar Year, 2010 | 2011 | 2012 | 2013 | CAGR '09 - '13 |
|---|---|---|---|---|---|---|---|---|
| Retail Sales | 66,600 | | 66,600 | 71,171 | 78,082 | 86,068 | 95,316 | 9.4% |
| *Base Sales Growth (%)* | | | | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| Credit Revenue | 150 | | 150 | 160 | 176 | 194 | 215 | 9.4% |
| *Credit Sales Growth* | | | *na* | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| **Total Revenue** | **66,750** | | **66,750** | **71,331** | **78,258** | **86,262** | **95,530** | 9.4% |
| *Total Revenue Growth* | | | | *6.9%* | *9.7%* | *10.2%* | *10.7%* | |
| COGS | 46,544 | | 46,544 | 49,632 | 54,373 | 60,075 | 66,521 | |
| *% of Retail Sales* | *69.9%* | | *69.9%* | *69.7%* | *69.6%* | *69.8%* | *69.8%* | |
| SG&A (excluding D&A and Rent Expense) | 13,596 | (35) | 13,561 | 14,387 | 15,708 | 17,314 | 19,175 | |
| *% of Retail Sales* | *20.4%* | | *20.4%* | *20.2%* | *20.1%* | *20.1%* | *20.1%* | |
| Credit Expenses | - | | - | - | - | - | - | |
| *% of Credit Revenue* | *0.0%* | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | |
| Retail EBITDAR | 6,460 | | 6,495 | 7,153 | 8,001 | 8,678 | 9,620 | 10.3% |
| *Retail EBITDAR Margin (%)* | *9.7%* | | *9.8%* | *10.0%* | *10.2%* | *10.1%* | *10.1%* | |
| Credit EBITDAR | 150 | | 150 | 160 | 176 | 194 | 215 | 9.4% |
| *Credit EBITDAR Margin (%)* | *100.0%* | | *na* | *na* | *na* | *na* | *na* | |
| **EBITDAR (Pre-spin)** | **6,610** | | **6,645** | **7,313** | **8,177** | **8,872** | **9,835** | 10.3% |
| *EBITDAR Margin (%)* | *9.9%* | | *10.0%* | *10.3%* | *10.4%* | *10.3%* | *10.3%* | |
| Current Embedded Facility Management Costs | | (125) | (125) | (134) | (147) | (162) | (179) | |
| External Facility Mgmt. Payments to TIP REIT | | 144 | 144 | 154 | 169 | 186 | 206 | |
| Current Rent Expense | 173 | | 173 | 178 | 182 | 187 | 191 | |
| Additional Rent Expense | | | 1,433 | 1,527 | 1,673 | 1,842 | 2,037 | |
| **Pro Forma EBITDA (Post-spin)** | **6,436** | | **5,020** | **5,588** | **6,300** | **6,819** | **7,580** | 10.9% |
| *EBITDA Margin (%)* | *9.6%* | | *7.5%* | *7.8%* | *8.0%* | *7.9%* | *7.9%* | |
| Depreciation & Amortization | 1,940 | (55) | 1,885 | 2,007 | 2,189 | 2,400 | 2,642 | |
| *% of Retail Sales* | | | *2.8%* | *2.8%* | *2.8%* | *2.8%* | *2.8%* | |
| **Operating Income** | **4,496** | | **3,135** | **3,581** | **4,110** | **4,420** | **4,938** | 12.0% |
| Net Interest (Income) / Expense | 333 | (31) | 302 | 330 | 346 | 463 | 555 | |
| Income Tax Provision | 1,469 | | 1,077 | 1,235 | 1,430 | 1,504 | 1,665 | |
| *Tax Rate (%)* | *35%* | | *38%* | *38%* | *38%* | *38%* | *38%* | |
| Minority Interest | 257 | (257) | 0 | 0 | 0 | 0 | 0 | |
| **Net Income** | **2,438** | | **1,757** | **2,015** | **2,334** | **2,453** | **2,717** | 11.5% |
| *Net Income Margin (%)* | *3.7%* | | *2.6%* | *2.8%* | *3.0%* | *2.8%* | *2.8%* | |
| Current Diluted Shares Outstanding | | | 754.7 | 754.7 | 726.2 | 683.8 | 657.0 | |
| Shares Repurchase | | | 0.0 | (28.5) | (42.4) | (26.8) | (29.3) | |
| Share Repurchase from Options | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total Shares Outstanding | | | 754.7 | 726.2 | 683.8 | 657.0 | 627.7 | |
| Weighted Average Shares Outstanding | | | 754.7 | 740.4 | 705.0 | 670.4 | 642.3 | |
| **Earnings per Share ($)** | | | **$2.33** | **$2.72** | **$3.31** | **$3.66** | **$4.23** | 16.1% |

# Target Corp Model – Balance Sheet

| ($mm) | Status Quo CY2009 | REIT Adj. | Pro Forma CY2009 | Calendar Year, 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Cash & Equivalents | 2,100 | (1,600) | 500 | 500 | 500 | 500 | 500 |
| Trade Receivables | - | | - | - | - | - | - |
| Other Current Assets | 9,305 | | 9,305 | 9,944 | 10,909 | 12,025 | 13,317 |
| Property, Plant & Equipment, gross | 38,427 | (12,723) | 25,704 | 27,958 | 31,179 | 34,823 | 38,983 |
| Accumulated Depreciation | (11,205) | 941 | (10,264) | (12,271) | (14,461) | (16,860) | (19,503) |
| Property, Plant & Equipment, net | 27,223 | (11,782) | 15,440 | 15,686 | 16,719 | 17,962 | 19,480 |
| Other Non-Current Assets | 1,277 | | 1,277 | 1,277 | 1,277 | 1,277 | 1,277 |
| **Total Assets** | **39,905** | | **26,523** | **27,407** | **29,405** | **31,765** | **34,574** |
| Debt | 5,925 | (890) | 5,036 | 4,595 | 5,544 | 5,892 | 6,697 |
| Other Current Liabilities | 10,842 | | 10,842 | 11,586 | 12,711 | 14,011 | 15,516 |
| Other Non-Current Liabilities | 2,521 | | 2,521 | 2,521 | 2,521 | 2,521 | 2,521 |
| **Total Liabilities** | **19,288** | | **18,398** | **18,702** | **20,776** | **22,424** | **24,735** |
| Minority Interest | 4,563 | (4,563) | 0 | 0 | 0 | 0 | 0 |
| Total Equity | 16,054 | (7,930) | 8,124 | 8,705 | 8,629 | 9,340 | 9,840 |
| **Total Equity & Liabilities** | **39,905** | | **26,523** | **27,407** | **29,405** | **31,765** | **34,574** |

# Target Corp Model – Cash Flow Statement

| ($mm) | | Calendar Year, 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| EBITDA | | 5,588 | 6,300 | 6,819 | 7,580 |
| less: Interest Expense | | (330) | (346) | (463) | (555) |
| less: Taxes | | (1,235) | (1,430) | (1,504) | (1,665) |
| Share-based Compensation | | 73 | 73 | 73 | 73 |
| less: Increase in Net Working Capital | | 105 | 159 | 184 | 213 |
| less: Increase Funding of CC Growth | | 0 | 0 | 0 | 0 |
| **Cash Flow from Operating Activities** | | **4,201** | **4,756** | **5,110** | **5,646** |
| Capital Expenditures | | (2,253) | (3,222) | (3,643) | (4,160) |
| **Cash Flow from Investing Activities** | | **(2,253)** | **(3,222)** | **(3,643)** | **(4,160)** |
| Issuance of Debt | | 1,507 | 2,483 | 1,815 | 2,291 |
| Repayment of Debt | | (1,948) | (1,534) | (1,467) | (1,486) |
| Issuance of Equity / (Buy Back) | | (1,507) | (2,483) | (1,815) | (2,291) |
| Issuance of Dividends to Common | | 0 | 0 | 0 | 0 |
| **Cash Flow from Financing Activities** | | **(1,948)** | **(1,534)** | **(1,467)** | **(1,486)** |
| Beginning Cash Balance | | 500 | 500 | 500 | 500 |
| Change in Cash | | 0 | 0 | 0 | 0 |
| **Ending Cash Balance** | | **500** | **500** | **500** | **500** |
| Average Cash Balance | | 500 | 500 | 500 | 500 |
| Interest Income | 3.0% | 15 | 15 | 15 | 15 |

# Target Corp Model – Build-ups and Credit Metrics

| Sales Buildup | Pro Forma CY2009 | Calendar Year, 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Square Feet (mm) | 231 | 239 | 254 | 270 | 289 |
| $ / Sq. Ft. | 288 | 297 | 308 | 318 | 330 |
| Retail Sales | 66,600 | 71,171 | 78,082 | 86,068 | 95,316 |
| Implied Retail Sales Growth (%) | | 6.9% | 9.7% | 10.2% | 10.7% |
| Sq. Footage Growth (%) | | 3.5% | 6.0% | 6.5% | 7.0% |
| SSS Growth (%) | | 3.3% | 3.5% | 3.5% | 3.5% |

| CapEx Buildup | | | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Total System CapEx | | | 3,111 | 3,083 | 4,761 | 5,444 | 6,277 |
| *CapEx as % of Retail Sales* | | | *4.7%* | *4.3%* | *6.1%* | *6.3%* | *6.6%* |
| Maintenance/Retail CapEx | | | 1,332 | 1,423 | 1,638 | 1,806 | 2,000 |
| Additional Cap Ex | | | 0.0 | 0.0 | | | |
| **TOTAL Maintenance/Retail CapEx** | | | **1,332** | **1,423** | **1,638** | **1,806** | **2,000** |
| – Target Corp | | | | 1,423 | 1,638 | 1,806 | 2,000 |
| – TIP REIT (Existing DC & WH) | | | | 0 | 0 | 0 | 0 |
| **Development CapEx** | | | **1,779** | **1,660** | **3,122** | **3,638** | **4,278** |
| Buildings (Tgt Corp) | % of Development | 50% | 890 | 830 | 1,583 | 1,837 | 2,160 |
| Land | % of Development | 50% | 890 | 830 | 1,539 | 1,801 | 2,117 |
| – Target Corp | | | 0 | 0 | 0 | 0 | 0 |
| – TIP REIT | | | 890 | 830 | 1,539 | 1,801 | 2,117 |
| Other (Target Corp) | % of Development | 0% | 0 | 0 | 0 | 0 | 0 |

| Facilities Management Business ($mm) | | | | | |
|---|---|---|---|---|---|
| Total Current Costs | 125 | 134 | 147 | 162 | 179 |
| Growth % | | 6.9% | 9.7% | 10.2% | 10.7% |
| Markup to TIP REIT | 15% | 15% | 15% | 15% | 15% |
| Facilities Management Revenue to TIP REIT | 144 | 154 | 169 | 186 | 206 |

| Credit Metrics | | | | | | | |
|---|---|---|---|---|---|---|---|
| Lease Adjusted Debt | 8 x | 1,387 | 12,851 | 13,637 | 14,844 | 16,228 | 17,823 |
| Actual Debt | | 5,925 | 5,036 | 4,595 | 5,544 | 5,892 | 6,697 |
| Total Lease Adjusted Debt | | 7,312 | 17,887 | 18,232 | 20,388 | 22,120 | 24,520 |
| Total Lease Adjusted Debt/EBITDAR | | 1.1 x | 2.7 x | 2.5 x | 2.5 x | 2.5 x | 2.5 x |
| Total Debt / EBITDA | | 0.9 x | 1.0 x | 0.8 x | 0.9 x | 0.9 x | 0.9 x |
| EBITDAR / (Interest + Rent) | | 13.1 x | 3.5 x | 3.6 x | 3.7 x | 3.6 x | 3.5 x |
| EBITDA / Interest | | 19.3 x | 16.6 x | 16.9 x | 18.2 x | 14.7 x | 13.7 x |