

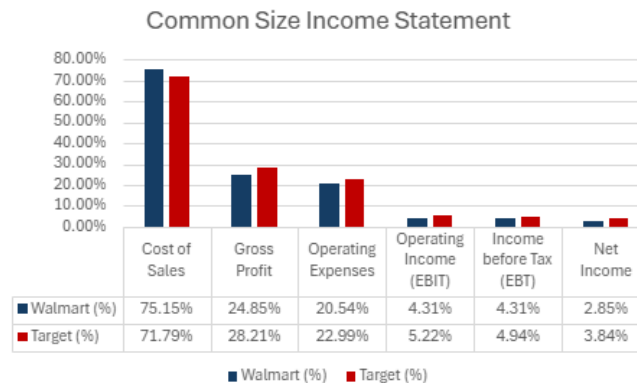
# Interpretation of Common Size Financial Statements of Target and Walmart

## Introduction:

This report presents a common size financial statement analysis of Walmart and Target, converting their income statements and balance sheets into common size format. The analysis highlights key financial trends, including profitability, asset composition, and financial leverage, and compares the two companies for similarities and differences.

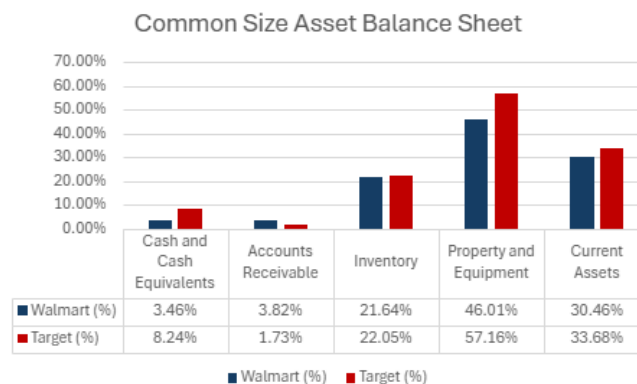
## Financial Trends Analysis:

### *Profitability Trends:*



Walmart maintains a higher cost of sales as a percentage of revenue compared to Target. while Target maintains higher gross profit, operating, and net margins. This suggests stronger profitability for Target relative to Walmart.

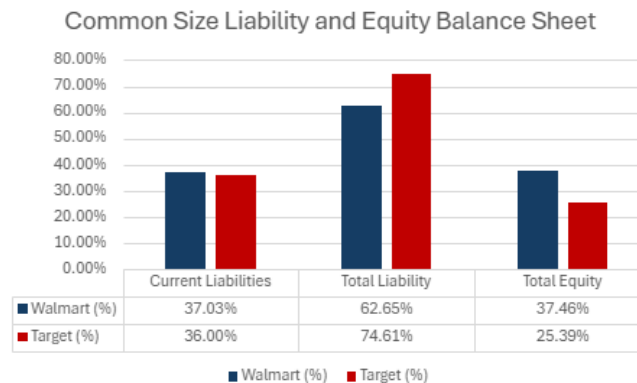
### *Asset Composition:*



Walmart has a higher accounts receivable as a proportion of total assets compared to Target, while Target has higher cash and cash equivalents, inventory, property and equipment, and current assets as a proportion of total assets. This suggests that Walmart relies more on credit sales, whereas Target maintains a stronger liquidity position and invests more in physical assets and inventory.

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### *Financial Leverage:*



Walmart has a higher current liabilities and total equity as a proportion of total assets, while Target has a higher total liability as a proportion of total assets. This suggests that Walmart relies more on short-term financing and shareholder equity, whereas Target depends more on debt financing, which may increase financial risk but also provide potential tax benefits.

### Key Takeaways on Financial Health & Strategies:

#### *Walmart:*

Walmart operates on a credit-heavy model, relying more on accounts receivable to drive sales. This suggests that it depends heavily on customers purchasing on credit, which may slow cash collection cycles but also enhance customer retention and repeat transactions. Walmart also focuses on short-term financing and operational flexibility, maintaining higher total equity relative to assets rather than relying extensively on long-term debt. This approach allows Walmart to adapt quickly to market changes, although it requires careful liquidity management to meet short-term financial obligations. Additionally, Walmart takes a more aggressive financial stance, balancing short-term liabilities while avoiding excessive reliance on debt financing.

#### *Target:*

Target, on the other hand, demonstrates stronger profitability, reflected in its higher gross, operating, and net margins, which indicate better cost efficiency and earnings retention. Target maintains a strong liquidity position, holding more cash and investing heavily in physical assets and inventory, allowing it to sustain financial flexibility and ensure a smooth supply chain. Target also relies more on debt financing, carrying higher total liabilities, which could pose financial risk but also provide tax advantages through interest expense deductions. This suggests Target prioritises long-term investment and strategic debt utilisation to support its growth initiatives.

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### Summary:

Overall, Walmart and Target exhibit distinct financial strategies, with Walmart focusing on operational flexibility and short-term financing, while Target emphasises profitability, liquidity, and long-term debt utilisation. Despite similarities in revenue distribution and cost structure, their differences in asset allocation and financial leverage highlight contrasting approaches, with Walmart taking a more aggressive stance and Target favouring strategic long-term growth.