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## Target Sets Canada for First Expansion Outside U.S.

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By Lauren Coleman-Lochner

(Updates with closing share price in 11th paragraph.)

Jan. 13 (Bloomberg) -- Target Corp., the second-biggest discount retailer in the U.S., agreed to buy store leases in Canada for C\$1.83 billion (\$1.85 billion) to expand outside the U.S. for the first time in its history.

The leasehold interests apply to as many as 220 sites now run by Zellers Inc., a unit of Canadian department-store chain Hudson's Bay Co., Minneapolis-based Target said today in a statement. Target plans to open 100 to 150 sites in Canada in 2013 and 2014.

Target is entering Canada more than a dozen years after larger rival Wal-Mart Stores Inc., which operates more than 300 stores there. Moving north is "the most logical first extension of an international strategy" because Canadians know the Target brand, Chief Executive Officer Gregg Steinhafel said today in a telephone interview from Toronto.

"This is earlier than we expected and it's a bigger initial investment," Steinhafel said.

Target, which operates about 1,700 stores in the U.S., announced its intention to expand beyond its home turf about a year ago, saying that Canada, Mexico and Latin America would be the most likely places. The retailer also is developing smaller-format stores for urban areas and expanding the grocery sections in its full-sized discount stores.

### 'No Delays'

Target sees "no delays, no change in tactics or timetables" on those initiatives, Steinhafel said. He predicts 200 to 240 stores in Canada eventually.

"This is a big bite initially but the positive is you go in with scale," Colin McGranahan, a Sanford C. Bernstein analyst in New York, said in an interview. He rates the stock "outperform."

The Zellers stores range in size from smaller than the company would operate to a typical Target store size, Steinhafel said.

"There may be ways that we can expand, relocate or trade space within existing malls to try and get the larger footprint in those areas where we don't have larger footprints," Steinhafel said.

Target will "suspend any serious activity" in other international markets for the time being, Steinhafel said.

Target fell 3 cents to \$55.42 at 4 p.m. in New York Stock Exchange composite trading. The shares have gained 12 percent in the past year, compared with little change for Bentonville, Arkansas-based Wal-Mart.

### Marketing, Merchandising

Michael Francis, Target's chief marketing officer, will oversee the move into Canada, according to a separate statement today.

Target will take a "province-by-province" approach to marketing and merchandising new stores, concentrating on large cities such as Vancouver and Montreal, Francis said today in a telephone interview.

That will include efforts in French. The dual-language approach including bilingual packaging "will be more complicated and comprehensive" than the company's previous Spanish-language marketing, Francis said.

Target plans to make payments for the leases through 2011. Canadian discount-chain Zellers will sublease the sites from Target and keep running stores under its own line "for a period of time," the company said.

Target also said today that it will seek to sell its credit-card receivables portfolio, which amounted to \$6.7 billion as of Oct. 30.

### Regulatory Uncertainty

Target sold almost half of its credit-card loans to JPMorgan Chase & Co. for \$3.6 billion in 2008. It suspended efforts to find a buyer for the remainder last year amid market and regulatory uncertainty, said Steinhafel, who said the company will evaluate the best use for the proceeds once a deal is reached.