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# EDITED TRANSCRIPT

TGT - Q4 2017 Target Corp Earnings Call and 2018 Financial  
Community Meeting

## MARCH 06, 2018 / 4:30PM, TGT - Q4 2017 Target Corp Earnings Call and 2018 Financial Community Meeting

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### PRESENTATION

**John Hulbert** - *Target Corporation - Senior Director of IR*

Well, good morning, everyone. Thank you for joining us. For those of you here with us in the room, we're really excited that you joined us here in our hometown. And hopefully, you found the experience last night, the store tour, the exhibits this morning helped you get a deeper understanding of what we're working on.

Couple of housekeeping items. First, there's a couple, I'm going to just literally read the slides. First of all, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings.

Second, in today's remarks, we refer to non-GAAP financial measures, including adjusted earnings per share. Reconciliations of all non-GAAP measures to the most directly comparable GAAP measure are included in our financial press releases and SEC filings, which are posted on our Investor Relations website.

So finally, something new this year for those of you on the webcast. You can submit questions. I'm happy to say we are already getting questions, so please submit those. The team will get those questions to us, and we will take some of those during the Q&A session after the speeches.

So with that, we can get started with Brian.

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

Well, thanks, John, and good morning, and thank you for joining us today in Minneapolis. John, Cathy and I really enjoyed spending time with you during last night's tours and the reception. And I hope all of you had a chance to explore even more this morning. While we can make slides or show videos, there's simply no substitute for being here live and in person, walking the sales floor, talking to our teams, touching, feeling and experiencing new products and services, seeing for the first hand the future of Target.

What's so exciting for me is that, last year at this time, all we could do was talk about the future. Most of what we could show were still renderings. Today, those things are real. The work is well under way. We've made a ton of progress against our priorities. And as you saw today, our teams are more focused than ever. And our guests are responding in kind. What a difference a year makes.

Think back to this meeting 2017. The world could not have looked more different. Coming out of soft holiday sales, the headlines were all about store closures, a catastrophic border tax and a looming retail apocalypse. That morning, we had a tough message of our own. But one by one, many of you pulled me aside that day and said, "Brian, I'm glad you're investing. We believe in your strategy. I'd make the same moves if I was standing in your shoes." It was a long flight home, but let me tell you what happened as soon as we landed in Minneapolis. The very next morning, we gathered our senior leadership team from every part of the country, and we grounded them in our company purpose, making sure every decision we made from that moment forward was in service to our purpose, to help all families discover the joy of everyday life. We talked about where we were and what it would take to continue to build the love our guests have for our brand. We talked about the things that makes Target unique, playing our own game, what it means for Target to really win. We talked a lot about urgency, getting things to market, testing, learning, doing it faster than ever before and rallying the organization around our multiyear plan, committing more than \$7 billion to modernize every dimension on our business and lean into the things that truly sets Target apart, blending the best of our digital and physical shopping experience, reimagining our network of more than 1,800 stores as inspiring showrooms and neighborhood fulfillment centers, moving in a new smaller markets, creating digital capabilities that bring incredible ease and convenience to our guests' lives and doing what Target does better than anyone else in the marketplace, creating great brands at scale and with style.

And we talked about what it was going to take to make all of that happen, the power of our Target team, nearly 350,000 people all around the world, the connection they have to their community, the passion they have for our brand.

I've been in this business now for more than 30 years, and I've never seen anything like it. Never. The people who work at Target, they love the brand. They take great pride in taking care of our guest, and our guest sees it every day. They know the people who work in their neighborhood store. They seek their expertise. They appreciate their hospitality and their friendly service. When you ask our guests why they shop at Target, more often than not, they say it's because of the people. So it should come as no surprise that given our team's drive and competitive spirit, they never consider a forecast a foregone conclusion. It's just another challenge to raise the bar even higher.

So last March, we told our store teams if you post positive comps in 2017, well, we told them they could wear jeans every weekend in 2018. Sure enough, if you were in a Target store on Sunday, you saw a lot of denim because here's what happened next.

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

I've seen that video a half dozen times now, but it still makes me smile. I couldn't be more proud of what this team has accomplished. 2017 was

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Rather, it's a sum of the parts, everything working together and everything working that carried the day. While we're obviously pleased with the results, there's no time for a victory lap because you know, and I know, we still have a lot of work left to do.

So while 2017 was all about putting down a plan, getting the wheels turning in the right direction, 2018 is about acceleration, leveraging our greatest assets and leaning in to our competitive strength, all in service of making Target America's easiest place to shop.

So as many of you experienced this morning, newness and innovation are essential elements of our strategy. Our teams are exploring retail applications for just about every buzzword you can imagine, AI, CGI, machine learning. And while we're looking for future opportunities to build adjacent businesses and disruptive technology, the vast majority of our teams' time and talent is aimed at our core and advancing our investments around several key strategic categories: creating a more inspiring and connected shopping experience; reimagining our supply chain and fulfillment capabilities by positioning our stores at the heart of our network; continuing to reinvent our own brand portfolio; and investing in what is by far our most valuable asset, our team.

These are the choices we're making to ensure Target continues to stand out from the pack and further distinguish our brand in the minds of the guests. And today, I'm happy to report we're either on pace or ahead of schedule in delivering what we laid out 1 year ago. And it's all because of our people. They are, in every sense, our greatest point of difference, and that's true across every corner of our organization.

Consider for a moment what it takes to bring a shirt to market. The buyers, textile designers, sourcing managers, fabric engineers, all the planners, the pricing analysts, the marketers, the packaging experts, the global trade managers and those visual merchandisers, every one of those jobs is held by a Target team member. The talent and expertise you see at every single node in that global value chain gives us an unrivaled competitive advantage. That's what's equally important is the fact that for that shirt when it reaches the store, well, our team members who greet our guests and help them find what they're looking for, that's why we're investing in training and teaching not only to sell the shirt, but to sell the whole outfit. We're also providing new tools to manage tasks more efficiently, so we have more time for personalized service. And we're creating new pathways for advancement, developing new skills and leaning in how to manage, motivate and lead others.

During the past year, we've made great strides in changing our service model and added payroll in areas where our guest expects a more human touch. And of course, I'm really proud of the leadership position we took in October, raising our starting wage to \$11 and committing to \$15 an hour by 2020. I will tell you that within days of that announcement, applications for seasonal positions spiked by more than 30%, and we had a much stronger pool of talent to hire from. But the benefits of that investment go much further than just the short-term seasonal boost. Our leadership position on wage establishes Target as an employer of choice and will drive preference for years to come. And now you're seeing a number of employers inside and outside of retail follow our lead. And today, I'm happy to announce, we will raise our starting wage again to \$12 starting with current team members this spring.

So when we talk about elevating the shopping experience, the work is all about connecting physical and digital and empowering our people to bring in all the life. Despite all the changes across the consumer landscape, one thing remains absolutely true. Our guests love to shop. Our team is laser focused on creating the kinds of experiences that are worth the trip or an extra click, and you saw that first hand last night. The before and after images of our downtime store, well, they tell the whole story. It's not just about better and more modern design. It's about creating experiences based on how we want our guests to feel when they shop. It's about being welcoming. So in Beauty, this means making sure our guests see themselves in the product and the marketing, asking for what we can do to encourage them to explore even more. We want them to feel inspired. So in Apparel, it's not just presentation. It's about helpful service. Across the entire experience, we also want to make sure we continue to make it really, really easy. And by no means, we'll then experience, look the same from store to store.

Each day today, 42,000 people walk past our Herald Square store during that evening commute. Not one of them wants to walk out with a 50-inch flat screen TV on one hand and try to hail a cab in the other. Every design decision, every merchandising choice has to be made with the guest experience being top of mind.

Now if you haven't been to our next-generation store in Houston, I can assure you it is worth the trip. You've often heard me talk about the power of and. Our new store in Houston is really the physical manifestation of that phrase. It was designed for ease and inspiration, style and essentials,

mass and specialty. And it's a glimpse into our future, not because we plan to open dozens of new stores just like it, but because we're picking and choosing elements from that prototype to create customized concepts for every store we remodel.

Last year, we committed to remodeling 600 stores over 3 years, and now we're going to raise the bar. In 2017, we delivered 110. This year, we'll triple that pace and do 325 more. We'll keep going at that rate, completing over 1,000 remodels by 2020. We'll also open up more small-format stores in prime urban markets, including 3 more tomorrow. And when we put it together, the aggregate investment we're making in key markets, like Chicago, L.A. and right here in Minneapolis, will exceed several hundred million dollars across each one of those communities.

We're also investing to bring the best of digital into our physical experience. Consider the stat during the holidays. Our stores fulfilled more than 2/3 of our digital orders. So now if I'm sitting at my desk and I order something from Target.com, but I pick it up on my way home, does it make sense to call it a digital transaction? If I buy a patio set with my phone, while I'm sitting on the store display model, is that a digital sale? Our finance folks would say yes. I can tell you, our guests could care less. And our technology teams, they're working hard to create new tools to completely erase that line altogether. For example, we folded our popular Cartwheel app into our flagship app to simplify the experience. And we introduced Wallet, so our guests can find deals and pay more easily and faster than ever before.

On Target.com, we added a 360-degree digital shopping experience. We're investing in augmented reality. We're elevating our storytelling around key brands and key life moments. And we're finding new ways to extend our assortment and better leverage our platform. So not only are we creating better showrooms out of our stores, we're also using these buildings in a profoundly different way. They should be hubs for commerce and community. And given the fact that we're nearly 10 miles from every doorstep in America, we see a huge advantage in leveraging that proximity. We just needed to realign our network.

So a few years ago, we started shipping digital orders from our back rooms. We started small, and we worked out the kinks. We focused on getting orders to our guests with greater efficiency, reducing inventory across our network and dramatically accelerating delivery times. But that was just the start.

In August, we acquired Grand Junction, a technology platform that enables us to connect to third-party carriers and provide same-day delivery service. In October, here in Minneapolis, we piloted Drive Up, pull up, pop your trunk, we are out with your order in less than 2 minutes, rain or shine.

Then in December, we announced the acquisition of Shipt, a technology platform, which is allowing us to provide tens of thousands of personal shoppers and closes that last mile delivery gap from days to minutes. I can tell you I've spent time with the Shipt team, talking to their network of shoppers. What really stands out for me is the people, the personal relationships they build with their customers. Think about people who love Target shopping who are out there shopping for Target lovers. It's a great combination, and John is going to share a lot more details about where we're headed, but I wanted to give you a sense for how we're moving even faster to take them to scale.

Today, we're announcing how we're going to expand our same-day delivery service from Manhattan to all 5 boroughs and several other big-city markets. With Drive Up, we're taking our 50-store test nationwide to nearly 1,000 locations coast to coast. And finally, I am really excited about this, we're going to offer free 2-day delivery on hundreds of thousands of items on Target.com. No membership, no extra fees.

When you think about all the bold moves we've made, none was more ambitious than our plan to reinvent our own brand portfolio. We promised 12 new brands in 18 months. Standing here today, I can tell you we're well ahead of schedule. In 2017, we brought 10 new brands to market and introduced 2 more, each one focused on replacing long existing brands or filling a whitespace in our current portfolio. Think about A New Day in ready to wear, JoyLab in active wear, Goodfellow for men, in Home Project 62 and Hearth & Hand with Magnolia, a partner with America's favorite family, Chip and Joanna Gaines. Each one of those brands delivered exceptional quality and unbeatable value. In a world where everything is increasingly commoditized, each one helps differentiate Target and build preference for our overall brand. Across the board, the results have been phenomenal.

(presentation)

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

While each brand has delivered incremental sales, they're working hard across our assortment, driving traffic to other categories and inspiring cross-shopping.

For example, we were highly intentional about launching Hearth & Hand early in the holiday season. It was an invitation for our guests to explore and an opportunity for inspiration, driving results across Home, but also helping categories, like Food as well. And while our design and marketing teams would tell you we set an incredible pace in 2017, we're only going to move faster and faster in the months to come. Last month, we launched Opalhouse in Home. And last week, we debuted a limited-time-only collection with Hunter, a long admired English heritage brand.

So before I turn it over to John and Cathy, I want to finish up where I started. 2017 was a big year for Target. We laid out an ambitious agenda, blending digital and physical, creating new experiences, reimagining our network of stores as hubs for commerce and community, expanding into new markets and reinventing our brands. We made bold investments, more than 100 remodels, dozens of new formats, key acquisitions, blockbuster brands, industry-leading investments in our team, and our team delivered.

We're headed into 2018 with a road that couldn't be more clear. Our strategy is working. Our guests are responding. And we're accelerating the pace, pushing even harder, moving faster than ever before, 3x as many remodels, dozens of new stores, new services, new solutions, moving from concepts like Drive Up to scale and taking Shipt nationwide. And you'll see us continue to invest in our team and roll out one new brand after another all year long. Putting it all together, this is a strategy that's going to make Target America's easiest place to shop.

So now let me welcome John Mulligan, our Chief Operating Officer, to the stage. Thank you.

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**John J. Mulligan** - *Target Corporation - COO and EVP*

Good morning, everyone. You just heard from Brian that the Target team delivered on the commitments we made last year and then some, from standing up new stores to remodeling existing ones, rolling out new fulfillment options and expanding capabilities to get products to our guests even faster. We're changing our operations to use our stores in new ways, while we continue to offer an exceptional in-store experience, and it's all made possible by the teams that bring those buildings to life.

We have more than 300,000 team members in our stores, face-to-face with millions of guests and tens of thousands more behind the scenes, creating, ordering, moving product and developing the technology, automation and tools that allow us to serve the guests in ways we hadn't even dreamed of just a few years ago. They're the experts, the inventors and the personalities behind every guest experience and the reason we've made meaningful progress toward putting our strategies in motion.

Just about everything our team has done, and continues to do, is in service of supporting our stores as hubs, hubs that offer a great shopping experience, support our communities and fulfill digital orders. They're at the center of how we're welcoming and inspiring guests and how we're making it really easy for them to shop at Target.

So here's a question I get all the time, in today's digital world, why invest in stores? And for us, the business case is simple. When a digital order comes in, we basically have 2 choices, fulfill it from one of a few fulfillment centers across the country or ship it out the back of a local store. We're fortunate to have more than 1,800 stores in really great locations, prime real estate just down the street from our guests, so we can deliver it faster, nearly 2 days faster than if we'd sent it from a regional fulfillment center, plus the inventory is already there because our stores feature a curated

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was over, the stores ramped right back down. So we avoid spending all that capital on new facilities we'd really only need a few weeks out of the year.

Now that's all great, but here's the real kicker and probably the thing you all care about most. Shipping from a store is the best way to lower the total cost of digital fulfillment. We hear a lot about optimizing, picking and packing, which can help make fulfilling an online order more efficient. But step back and look at the total cost of fulfillment. There are fixed and variable costs required to run and staff the fulfillment center. But no question, shipping is, by far, the largest chunk. Going after the variable cost, while really important, only gets you so far. To lower the total cost, you can't ignore the big dog. Shipping from a local store optimizes the most dominant standalone cost by dollars per order. And because we haven't sunk capital into a massive fulfillment center, our overhead and other fixed costs essentially go away. You've all seen our strong digital growth, and we expect that to continue.

So at some point, we'll need to build more upstream facilities just to manage volume, but we're not there yet. Using our stores to fulfill millions of orders lets us delay those investments or avoid some of them altogether. And because our stores are the fastest and most efficient fulfillment method, they'll continue to be our preferred shipping point in the long run. Bottom line, shipping from our stores moves product faster, and we do it at a significantly lower cost. I'm confident, none of you need a spreadsheet to see that, that's a really good thing. For a company like us with well-located assets already in place across the country, this strategy makes complete sense. But the entire supply chain operation has to support it. With everything we're asking a store to do, they need more product than ever before. We're replenishing the shelves and fulfilling digital orders, all in one building from the same pool of inventory, so product has to come fast and often. But there's already so much happening in a store, so the trick is to send them only the right amount of product at the right time and quickly.

You all know our team has been building an entirely new operating model for our supply chain. Last year, I told you about our plans to become more flexible on how we move product. The goal is to be able to move inventory in any quantity, whether that's cases, pallets or individual units, so we can replenish only what we sold. That might mean sending a truck with bottles of shampoo next to cases of ketchup and pallets of water. We send the store precisely what it needs to restock the shelf. It keeps product from clogging up the back room and makes it easier for our teams to manage the inventory. It's a model we've been testing with a distribution center in the Northeast, and it's working. The store supported by that DC have reduced their backroom inventory by more than 1/3 and cut out-of-stocks to half of what we see across the rest of the chain.

Of course, we did all that with an entirely new facility, and we're expanding that operation to support more stores in Northeast. But we're also testing how to work to retrofit our existing network. And by the fourth quarter, multiple DCs will begin the journey to evolve to this model. To do it, we're scaling some of the most promising robotic solutions we've tested in the past year. That automation makes it possible for us to sort and move huge volumes of single units without putting an unsustainable burden on our DC teams or the stores. With less inventory in the back of the store, we can dedicate more room to digital fulfillment.

This past holiday season, we tested a new design in the backroom, complete with more pack stations and dedicated space to sort orders for delivery, and capacity shot up. It was incredible. As orders came pouring in on Cyber Monday, the teams were picking, packing and sorting boxes, just like a fulfillment center. And with an enhanced layout and process, they did up to 6x the volume of the year before. Best of all, guests got their packages faster. Nearly every order that came into those stores that day was picked, packed and ready to ship in 24 hours. This year, to keep up with digital demand that continues to far outpace the industry, we're introducing this new backroom design to more than 150 stores, and we're reengineering the operation in more than 1,000 others. With this additional capacity, our stores plan to shift nearly double the number of packages for Cyber Monday 2018 compared to last year. That's good news because, as I said earlier, shipping more orders from our stores reduces our costs, while allowing us to move faster. And speed is the part our guests will notice. With the changes we've been making across our operation these past few years, the average delivery time for an order was nearing 2 days. But we weren't doing it consistently enough to make that promise to our guests, until now. We're announcing today that we're offering free 2-day shipping on hundreds of thousands of items, no membership required. With more mature fulfillment capabilities, we're updating our promise and resetting our guest expectations of what's possible. It's an offer that's compelling and competitive, and it's just the start.

Speaking of being competitive, one of the biggest leaps we made this past year was our swift move into same-day delivery. With our acquisition of Shipt, Target gained the ability to deliver product to our guests in hours or even minutes. We knew Shipt was a fit for Target right from the start. Here's a startup delivery company that's gone from one market in Alabama to more than 70 markets in just 3 years, so the operation is strong and

proven to scale. It's a company built on speed, but focused on service, which means working with Shipt, we could jump years ahead in our fulfillment plans without sacrificing the guest experience, staying true to how we've grown for more than 50 years. Take a look.

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**John J. Mulligan - Target Corporation - COO and EVP**

Just 8 weeks after our announcement, we began offering millions of guests the ability to shop online for more than 50,000 items across Grocery, Essentials, Electronics, Baby and more, and have those products delivered that same day. Already, we brought Target same-day delivery to Shipt members across the Southeast and in the Twin Cities, and we're rolling into new markets almost every week. By holiday, we'll be the first retailer to offer same-day delivery in nearly every major market.

As you just heard, the beauty of Shipt is that it's not just a transaction. Our guests will get a personalized service and care that these shoppers offer, unlike anyone else, while also accessing a wide assortment of products, priced right daily and delivered in hours. The whole package is something no one else is offering today.

At the same time, guests still like to come into our stores and shop, but for guests in urban areas, like Manhattan, they can only buy what they can carry home. Last year, our team saw a need and knew we could help. Just weeks later, they'd rolled out a service at our TriBeCa location in New York City, where guests shop the store and then pay (sic) [pay] a flat fee, about the cost of a short cab ride, very cheap, very inexpensive, to have that order delivered that same day. Today, we're offering delivery from 4 stores in New York, and guests love it. It's quick and efficient, and it's all possible because of the technology we acquired from Grand Junction last year. The platform assigns every order to the most logical local carrier, which is what allows us to efficiently scale the service beyond a single store or a market.

Starting this spring, we'll go even bigger in the city, offering the service in 25 more New York locations and reaching all 5 boroughs by Q4. And at the same time, we'll roll it out in other markets, like Boston, Chicago, San Francisco and D.C.

Delivery goes a long way in making our guests lives easier, but just as meaningful as when a team member can put formula and diapers right in the back of a minivan, saving the guest from unloading the car seats to run inside. Last summer, we started testing Drive Up in the Twin Cities. It took order pickup to the parking lot, where our store teams would walk the order out to a guest car. We saw the demand for it right away, and guest feedback was overwhelmingly positive. In fact, Drive Up's Net Promoter Score is consistently over 80. And those of you who are familiar with that metric know that's incredibly high. This spring, at the same time we take Shipt across the country, we'll roll out Drive Up, putting the service in nearly 1,000 stores by the end of the year. In every fulfillment option, shipping, delivering or walking orders to the car, the store is at the center. It also continues to be a destination for millions of guests every week, while fielding much of our digital growth at the same time, so we have to be sure they are equipped to do both.

Brian and I spent a lot of time visiting stores across the country. A little over a year ago, we toured a few markets together and it was clear, the stores that we lean on so heavily needed some love. Not only did the design need a refresh, and by that I mean losing the neon and the vintage signs, but many of the layouts weren't set up to handle digital fulfillment. We walked stores where the team was holding order pickup packages in the backroom meeting areas because they didn't have space upfront or boxing orders in whatever backroom cranny that could fit a pack station. So our store design team developed a new prototype that would do it all. They reimagined the entrances, sales flooring, fixtures to make shopping



**John J. Mulligan** - *Target Corporation - COO and EVP*

We're incorporating elements of this latest design, as we remodel more than 1,000 stores across the country over the next 3 years, including the

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we first announced we plan to invest more than \$3 billion in our business in 2018, and then a month later, when we took decisive action in support of our single most important differentiator, our team. We announced higher investments and hours training to better equip our team to provide an outstanding guest experience. And to support our team members, we announced we would raise Target's national minimum wage to \$11 an hour as part of a plan to reach \$15 by the end of 2020. And again today, we made another step forward with the announcement of our national starting wage is moving to \$12.

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As we look past 2018, we don't believe that margin rates are going to unsustainably low levels. And we can clearly see a path to evolve our financial model and reward investors by delivering growth and attractive returns, consistent with the long-term record of this great company. We know we serve as stewards of a company that will have a very long history, and I can assure you that this leadership team is all in, in sustaining that great legacy we've inherited.

So now I want to end my remarks where Brian began, with a shout-out to our team. As soon as I came to Target, I quickly realized how special this team really is. I see it every day that I'm out in our stores, walking the sales floor or when I'm visiting our distribution centers or every day in our headquarters. No matter where they are or what they do, when you spend time with our team, you feel firsthand the pride they have in our company, our brand and the role Target serves in every community we are in. They share a common purpose to bring joy to our guests' lives, and they project an infectious sense of optimism. They see clearly that Target will succeed if we focus on the long term and make the right choices for our business, for our team, for our guests and our shareholders. So while there is no question that times were tough a year ago, our team's passion and energy never faded. Our team embraced the challenge to move faster and think bigger and begin moving Target from a show-me story to a long-term success story again.

So I want to say thank you to the entire Target team for everything you do. It's a privilege to work with you as we write this new chapter in our history.

So now I'm going to turn it back over to Brian for a brief wrap-up, and then we'll move to questions. Thank you.

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### **Brian C. Cornell** - Target Corporation - Chairman & CEO

So I love the way Cathy just brought it all together. We have an incredibly talented team at Target, and they truly delivered in 2017. I couldn't be more proud of their ambition, their passion for the brand and the way they always do the right thing for our guest. When you think about 2017, you heard it from Cathy and John, it was in every sense an investment year. We made big bets on new brands, new experiences and capabilities. We leaned into new partnerships and empowered our people. 2017 was a year of progress. As we looked to the year ahead, 2018 is all about scale and acceleration, so we're tripling the remodel program. We'll add another 30 small formats. We'll introduce many new brands. We're rolling out new service models and game-changing fulfillment capabilities and making even deeper investments in our team. And I'm really confident about what's next.

I'll be the first to say we still have a lot of work to do. The competition is fierce, the pace of change is unrelenting, and our guest deserves the very best. But I couldn't be more bullish about Target's prospects. The strategy we're pursuing is working. Our guests are responding. And now our team is more than ready to pick up the pace and move faster than we ever have before, with one goal in mind: to make Target America's easiest place to shop.

(presentation)

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## QUESTIONS AND ANSWERS

### **Brian C. Cornell** - Target Corporation - Chairman & CEO

All right. So I'm going to ask John and Cathy to join us on stage, so we can answer some of your questions. In addition to questions in the room here today, we also have questions coming from our webcast. We're going to try to make sure we incorporate those into the approximate 30 minutes we have for Q&A today. So we've got mic runners. They'll have bull's-eyes in their hand. I would ask, as you ask your questions, if you could just pause to identify yourselves. We can see many of you, but not very well. So why don't we start with Simeon, right up front. I can see up to about the second row, so it was an advantage.



**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

So why don't I start with the first part of the question. And Wayne, you're absolutely right. As we get into the out-years, we are going to see our remodel schedule begin to normalize. Right now, we're in a catch-up state. And as we accelerate over the next 3 years, obviously, we'll touch the vast majority of our stores. So in the out-years, we do expect that to normalize. But we have a lot of work to do in these next few years. It's all about making sure we execute our plan and touch and enhance the experience in as many stores as possible before we return to a normal remodel schedule.

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**John J. Mulligan** - *Target Corporation - COO and EVP*

I'm sorry, Wayne. I didn't fully understand the second part of your question.

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**Wayne Hood** - *BMO Capital Markets Equity Research* -

**Catherine R. Smith** - *Target Corporation - CFO and EVP*

Yes, it's a little bit of -- I talked about all of the tailwinds, and it is a little bit of all of those things. So we'll see some leverage because of the continued comp sales increase. We'll see some continued cost control, as we move throughout the year, that we have planned. So it's kind of the combination of the 4 different tailwinds and 1 of the headwinds.

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**Matthew Jeremy Fassler** - *Goldman Sachs Group Inc., Research Division - MD*

And if I could just ask a quick follow-up. You also shared lots of top line drivers. You talked about remodels, the new brands, Shipt, free 2-day shipping for a larger array of goods. Can you talk about how those layer into the revenue forecast over the course of the year?

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**Catherine R. Smith** - *Target Corporation - CFO and EVP*

Well, we gave first quarter guidance -- I can start John, I guess. We gave first quarter guidance, obviously, low single digit, and we gave full year guidance low single digit. And those all contemplate, obviously, our continued brand rollouts as well as all of our fulfillment expansion. So those are all included in that low single. Just so happens, it's Q1 and full year.

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**John J. Mulligan**

**John J. Mulligan** - *Target Corporation - COO and EVP*

Yes. So all things we're working on, Oliver, you heard me talk about we spent the last 12 months testing automation in, I think, 5 different facilities, various different forms of automation, bringing them together in different combinations in the Perth Amboy facility out in the Northeast. We're starting implementation of 1 view of that. We're implementing something different here in a DC located in Fridley. So that's a piece of it. We have a large team working on supply chain analytics, primarily located, but not exclusively located, out in the Bay Area, working with Mike's team to provide the technology and the analytics in combination. And again, if you look at Perth Amboy, Mike's team built an entirely new warehouse management system. And then there is the analytics attached to it to move how much inventory. So were moving down the path on all of those together. It is going to take all of those to deliver what we want from a supply chain perspective.

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

And Oliver, we try to showcase, obviously, a lot of the initiatives today, give you a chance to interact with the team, see the work that we're doing



in a flattish or up-slightly gross margin? And the second question is on the free 2-day shipping program, will that be fulfilled out of the stores? Or is that going to be a fulfillment-center type, can you just maybe elaborate on that expectation going forward?

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

Why don't I start from a margin standpoint? And as we've talked about throughout the last few quarters, our team has made significant progress, as we have shifted our business from promo to Everyday, the by-product of that commitment to being priced right daily. That's going to continue as we go forward. As you've seen over the last couple of days, we'll continue to introduce great new own brands in those signature categories that, as we all know, are higher-margin and provide a great return, both in-store, but also to our digital business. So we'll continue to see the benefits of the analytics, the science that we're placing behind our pricing and promo strategy, the shift from promotional sales to more regular-priced business, the benefits as we bring new excitement into our stores with great innovation. That's going to continue to stabilize and improve our margins over time, and it's a great point of differentiation. So whether it's Opalhouse or Umbro or some of the things you saw this morning, many new things that we'll talk about 0 0 1 36te s9a

powerful to bring consumers into the Shipt app. And so we've had great conversations with other retailers. We already have great partners in H-E-B, in Publix, in Meijer, Costco, all on the app, and we'll continue to grow that. So we're very interested in continuing to grow that marketplace.

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

And to the other question, Cathy, John and I, all spent quite a bit of time looking at other same-day delivery options, and we invested a lot of time getting to know the Shipt organization. We were attracted to Shipt and decided to take an ownership position because of that personal connection we saw with their member. And as we spent time and went to Birmingham, worked with some of their shoppers, saw the caliber of people that were shopping for Shipt, these moms who were shopping for moms, the approach they took to really building a relationship, we felt it was so important to own that last mile touch and that human interaction that we think really differentiates Target from anyone else in that space. So we certainly had options to partner with other last mile delivery companies, but we thought Shipt had a very different approach. It wasn't just the transaction, it was building a relationship. And we thought, owning that human touch was very consistent with what we think is our greatest asset, and that's our people that make such a difference, as we talk to guests and they describe why do they shop at Target. As said earlier today, most of the time the answer is pretty simple, it's because of our team.

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**Peter Sloan Benedict** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*



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**William Arthur Dreher** - *Susquehanna Financial Group, LLLP, Research Division - Analyst*

Bill Dreher here from Susquehanna Financial Group. I have a question regarding the renovations and remodels. How do you prioritize the renovations or remodels? So are you working with the stores with the greatest opportunity, the oldest stores, or how do you work on that? And then how do you -- how much of the new store remodel program can be brought in? Not 100% of all the new modules can be brought in. Should we be expecting a similar 70%, 80% of the modules brought in? And how does that roll out?

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**Brian C. Cornell** - *Target Corporation - Chairman & CEO*

John, do you want to tell about the remodel strategy?

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**John J. Mulligan** - *Target Corporation - COO and EVP*

Yes. So it's a little bit of everything you said, actually. When we're choosing the stores, we have a model that helps us generate age, condition, when's the last time. Part of it that comes into it is how hard is this store shopped, how high-volume is it, what is the average basket, so do they get shopped really hard day in and day out. And then to your point, where can we have the biggest impact, where can we go in and say, look, these

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