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## PRESENTATION

**John Hulbert** - *Target Corporation - VP of Investor Relations*

Good morning, everyone. It's really nice to see you all out there today. Thank you very much for coming.

We have a lot to cover today, so we're going to get started in just a minute. But we have a couple of important disclosures up front that I'm just going to read verbatim to you. Any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important





We also see tremendous opportunity expanding our footprint into key urban neighborhoods and on major college campuses. The store's function in every respect as a store, a place you can shop, but they are also just as much hyper local fulfillment centers. Take a look at what we're doing right here in New York. Until now, we left this massive opportunity on the table because we did not have a solution to literally fitting Target into Manhattan.

Now in all candor, 2016 was not our best year. And we're facing some headwinds as we begin 2017. But we are asking shareholders to make a meaningful investment, to build a stronger growing Company for the future. The good news is that we've been working on this for a while, and we know how to align around the change rather than run from it.

Our goal today is to demonstrate that the investments we're making are the right investments for the future, are the right decisions for the long term and will create greater shareholder value. John and Cathy will address this in more detail in a few minutes, but in addition to making the capital investments, we are also investing \$1 billion in operating margins this year. It will allow us faster growth over time and ensure we are competitively priced every day starting right now.

Clearly, this is a significant change in our financial model. But it reflects the new realities of the seismic shift that's occurring across our industry. Combine these investments with our unique asset base and we believe Target's opportunity is fundamentally different from any of our competitors. No one has our stores, no one has our assortment, no one has our brands, no one is closer to the guest, and no one is better positioned to compete in this next generation of retail like Target.

So while others are pulling back, Target is investing to compete and investing to grow. We're investing in stores, we are investing in our supply chain and in digital to fuel our business growth. We are investing to win share, not surrender it. There will be winners and losers in this new era of retail.

This plan is all about how we emerge on top. It's how we strengthen Target's value proposition to our guests and for our shareholders. It's how we build a Company that will deliver strong returns for many, many years to come. So thank you.

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

Good morning, everyone. You just heard it from Brian. Our brands, our smart network, the incredible value we offer our guests put together give us a unique position as we move into this next generation of retail. Over the past few years, we've made significant investments to make our assets work even harder. While we are seeing progress, we're nowhere near done.

Brian just talked about the record number of days this season when we saw all-time high digital sales. Make no mistake, we're proud of that performance, but what he didn't say, and what's just as important, is that behind the scenes our platform functioned flawlessly. Record online sales, record traffic, and more than enough capacity in the system to keep things humming right along. A year ago, as you well know, it was a different story.

Back in 2015, we introduced a general incentive offer for Cyber Monday, 15% off everything on our site. And our guests went crazy, which was great, right up until it wasn't. Demand was so high that quite candidly we had to throttle traffic to keep our site from crashing, frustrating guests and leaving millions of dollars on the table. Not good. But the message was clear, put together a compelling offer, straightforward, easy to understand with really clear value and our guests will respond.

But we also needed to really significantly increase our capacity to support the demand. So this year, our Chief Information and Digital Officer Mike McNamara and his team accelerated the reference to deliver a new adaptive platform that give us much more capacity, flexibility and stability. And when we put up record numbers this season our site did not falter once for our guests. In fact the new platform allowed us to adjust the site experience in real-time and drive additional sales, and still our site had 100% availability all season long.

We invested in going well beyond what would simply help us manage through the next year. We built for the long haul, allowing us to imagine our business far down the road. This is what we mean when we say we are investing to compete and grow. It's what we're doing across our business.

We're sharpening our operational performance so we can execute on our plans quickly, while at the same time we are making investments that set us up to compete in an increasingly fierce environment. We see enormous potential out in front of us and we're seizing every opportunity to capture it. First, let's talk stores, our key competitive advantage.

They are at the center of everything we do for our guests regardless of how we deliver. The 40% digital growth we saw in December, they enabled it. In the two days that followed our record-setting cyber Monday, our stores shipped more than 1 million orders to fulfill that demand. The week before Christmas, our stores fulfilled nearly 70% of our target.com orders, and on Christmas Eve they fulfill more than 80%, shipping about half of those to our guests and packing the other half for in-store pickup.

Our stores are a center for inspiration and discovery, they always have been and that's on changing. But when we look at them as buildings stocked with product, they are also local fulfillment centers. When you take the products our guests are already love and add in our store network, we have the unique potential to be incredibly competitive against both digital and traditional retailers.

Because for digital sales to work you have to be able to deliver, quickly, and with as little cost as possible. That's why getting near the consumer has become the Holy Grail in retail. Online-only competitors are investing rapidly to stand up warehouses that are storefronts that cut the distance between their products and the consumer. But we're already there. In fact, we're practically neighbors. 85% of our demand and three-quarters of all Americans are about 10 miles or less from our 1,800 stores.

So if we are talking about proximity, we already have it, no question. Brian mentioned that we're making investments to let us really exploit that advantage, to compete on a whole new level. Let me show you what we mean. Here are those 1,800 stores. We were really intentional about where we put these years ago, most in the suburbs, some in the exurbs, and a few in the city.

But now here are the 32 small format stores we opened in the last few years, prime urban neighborhoods, college campuses places where the suburban format just did not fit. These sites are unlocking tremendous value. They have more than two times the sales productivity of our average store. So even with higher operating costs they generate healthy returns.

They also serve as fulfillment hubs and a convenient pickup point for guests who would rather not have items delivered to the front step of their high-rise condo. In three years, we will add more than 100 to where we are today. To get there, we will open nearly 30 small format stores this year, doubling the number we have now. And we will open about 40 a year by 2019, with the potential for many more down the road.

Now this map does not outline every specific location, but it's representative of where we will focus. This will add fulfillment points in dense neighborhoods in cities like New York, LA and Chicago. And near more college campuses where lifelong shopping habits and brand affinities begin to take hold. As we expand, we will continue our hyper local approach. Before we plan store, we get to know the neighbors, who they are and what they need.

Then we design experience from the store's layout to the merchandise inside that fits. It's localization at its core. Take a look. (video shown) So I showed you how we are expanding our footprint with more than 100 small format stores over the next three years. At the same time, we will begin an effort to transform our existing locations.

As Brian said, our store asset base is a key differentiator for us, but there's a big gap between how those stores should look and feel for our guests and where we are today. We know that to really compete in a local market we need to make some big investments in those buildings, and so we are. Starting in 2017, we will reimagine 100 of our existing locations. We will pull elements from our new store prototype, which we designed based on how guests responded to a multitude of tests we have run over the past few years, like our LA25 pilot.

For this prototype, we took a fresh look at everything, from the front of the store to the back room layout, the entrance displays to the product presentation, food and beverage to apparel. As we build on what worked in LA25 and add even more enhancements with this new prototype, we expect to see a 2% to 4% sales lift per store. Not only will they feel like brand new stores, they will do even more than they can do today.

The design will be flexible so the store can be configured to reflect the needs of each community. We will have more space dedicated to visual storytelling, inspiring guests by showing products together, like entire outfits or table settings. And we will reallocate space to support digital fulfillment, such as adding more room for order pickup, and designing back rooms to grow our ship from store capabilities.

In 2018, we will touch more than 250 stores and do that once again the next year. But we won't be rolling out the same thing every time. We will iterate, so we're always delivering new services and enhancements based on what we are hearing from guests. By 2019, we will have reached 600 stores and that's just the beginning.

We will continue to make these investments so our stores can deliver the very best to our guests no matter the channel. With these enhancements, we will be able to expand ship from store capabilities beyond the 1,000-plus stores shipping today. Just as every store already serves as an order pickup location, by 2019 most stores will be shipping orders from the back room. And because we are improving how we flow product across our network, which I will talk about in a few minutes, each store will have even more of our assortment available to ship.

You can see how this map gets really rich over the next year and into the next three years. We continue getting closer to the guests, shipping from more of our assets and improving the in-store experience across the country. We are also doing work in all stores to make it easier for guests to shop, no matter if their trip starts online or in-store. Take order pick up, which after nearly three years, we still see growing rapidly.

Guests chose to have nearly 50% more items picked up in store this year than last. And they love that we will have it ready for them within an hour or two. We're making it easier and faster by separating the pickup and return areas, and we're moving toward a future where we will use technology to alert the team when guests arrive. We are also continuing to fold digital into the physical shopping experience.

Today guests use Cartwheel, our digital savings app, nearly 5 million times every week. They use it to plan their trips and shop the stores. Later this year, we will combine Cartwheel and our Target app to make shopping at Target even more easier and convenient. Guests will be able to make their lists, find items in stores, take advantage of great offers, and pay for their orders, all within a single app.

And in our refresh stores, we will test technology that gives the guest the ability to opt in and see what products around them are on sale with Cartwheel. It will be simple for them to find great value while checking things off their list. At the same time, we're making the shopping trip even more inspirational. For the past year or two, we've been testing new visual merchandising strategies and watching how our guests respond.

Now we're taking those learnings and cross-merchandising even more product categories. We're rearranging floor pads and standing up more compelling displays to help guests imagine how products work together and fit into their own lives. We're taking a similar approach to how we are featuring products on our site, so it's easier for guests to explore and find what they need, while discovering a few extra items along the way.

In our stores, we know that human interaction plays a big role in the guest's experience. It's why our talented store team is such an asset. Our expectation of store team leaders is a good example. Gone are the days when we sent a playbook from HQ and ask the teams execute word-for-word.

We are empowering and expecting store leaders to know their communities, know their guests, and do what's right. Let me tell you about a store leader in Orange County, California named Kerry Kiper. She has a guest space that is very passionate about beer, not wine, and not just the domestic big guys. Her guests love craft beer.

But instead of just stocking what our buyers in Minneapolis sent her way, she asked around, listened to her guests, shopped the competition and selected an assortment with the buying team that reflected what her guests want. And guess what, just like that Cyber Monday sale, give the guests what they want and they respond. And at Kerry's store they responded, big time. Her micro beer sales shot up 60%. In fact, she saw a lift across her whole adult beverage business.

As a result, we built process at headquarters to capture those insights from the front lines, so our teams can work together to localize assortments across the country. Kerry is just one example of how we're driving a cultural shift across the Company. And we're seeing what happens when we clear the way for the experts to do their jobs.

But we are not asking our store leaders to act on gut alone. We're giving star teams far more data, metrics and training to help make smart decisions. We're also giving the teams technology to improve a guest's experience and save the sale. This summer, we're implementing a program where when a guest wants a different size or color our team members will take care of everything.



They will be able to search our network's inventory, take payment from a mobile point-of-sale system, and arrange home delivery right from the sales floor. We expect to offer this level of service in all stores by holiday. Finally, we are simplifying operational tasks so our store teams can focus more of their energy on helping the guest. To make all of that work, we're leveraging the skills of our team members.

We've always cross-trained our teams so they can perform almost any task in the store. Now we're also standing up specialized teams like the crews that handle digital fulfillment, or food, and giving them more focused training so they can use their expertise to best serve the guests. Improving the store experience is an enormous body of work. But it's no secret that investing in our stores is only part of the equation.

And you know that our supply chain has been a major focus for our team. This past year, we hired a lot of talent with deep expertise and set wheels in motion for a major revolution of how we operate. We've honed in on two points we have to fix. To put it bluntly, we are slow, and we have too much inventory. And I can't tell you how painful it used to be to say that out loud.

But now I'm actually eager to share it because I'm so confident the work we're doing will position us to compete on a whole new level. Fundamentally, we're changing how we move product. For the last 50 years, our supply chain has moved big case packs of product and we've done it slowly. In the future, we know we will still have to move cases, but to replenish our stores faster and manage the growing digital demand we have to start moving individual items too.

The concept is really pretty simple. When a store sells one bottle of a certain shampoo, we put one of those bottles on the next store truck within hours. It's replenishing to actual guest demand and doing it fast. Now to someone not familiar with supply chains that might not seem like a big deal, but here's why it is. When we move with that much speed and precision all the product that comes into a store can go straight to the sales floor. Nothing sticks around in the back room. Out-of-stock goes down, safety stock goes down and our speed goes up. Way up.

Plus it's exactly how we need to move product to fulfill an increasing number of individual target.com orders. Above all, we get faster and more reliable and the guest wins. Then we can dedicate that back room space to more productive activities, like storing online only product for order pick, or shipping digital orders. And there's no extra product at one store when it could be used at another. I just talked about scaling our small format stores. This operating model is absolutely key to pulling that off.

In those stores where back rooms are typically tight or almost non-existent, we will be better equipped to send product needed in real time instead of relying on backroom storage. Today we have several pilots already underway and we will start transitioning to this model in the spring starting in the Northeast. The opportunities these changes open up in terms of last mile delivery speed are really exciting.

We will ship faster and at a lower cost, improving guest satisfaction and digital profitability. It has the potential to give guests more options for how to shop and how to truly get it whenever they want it. I'm very encouraged by the work already underway and about what our team expects will do in the next few years. We've set out to completely transform how we deliver for our guests, and I can't wait to share more as we make progress.

As we are investing in our stores and our supply chain, we are also undertaking an enormous effort to strengthen what our guests already love about us, our products. Target's assortment has always been the star of the show. It's why we hear about the guest who comes in for one thing

It wasn't just that we saw a new opportunity, it was how we went after it. We took a holistic approach, making sure every touch point guests had with the brand, whether in-store or online, was compelling, inspiring and easy to shop. While our stores featured product on mannequins and kid-sized fixtures, our site had a dedicated page that showcased Cat & Jack in a similar way, as a brand with outfits, not just a list of products. And made it easy to shop by item.

Both channels but the product front and center and our guests responded. Store traffic increased, digital conversion rates shot up, baskets grew. We saw strong sales across the business. In fact, the digital brand pages were so successful it is how we will present our products online going forward.

We learned a lot about our guests, the potential in the market, and how we could use our platforms together to drive growth. Now how many companies rolled out a new billion-dollar brand last year? I don't have a clue what the answer to that is, but I know it's not many. And now we're looking to do more.

With our new Chief Merchandising Officer, Mark Tritton, came on board last summer he challenged team to take the learnings from Cat & Jack and go further. They have been looking at everything, all of our brands, and seeing where we have a lot of value and where we don't. They're talking to our guests to really understand what they want, and matching that up with where Target has a unique opportunity to stand out. Now we are applying all of that in a really big way.

In the next two years, we will introduce more than a dozen new brands that Target guests will find only at Target. We will touch more than \$10 billion of current volume with the expectation that we will accelerate growth within our most differentiated and profitable categories. And, of course, our marketing team will bring them all to life in the magical way that only Target does. Mark can give you plenty more color during Q&A, but I will say that we're confident that we will appeal to current guests and attract new ones.

So much of what we offer will feel completely fresh, and it will be grounded in what our guests expect from Target, while helping them discover new styles and trends we know they will love. Our exclusive brands have always been a huge differentiator. They are part of Target's DNA. This investment shows our commitment to making sure what has always driven guests to Target, like our great product at an incredible value will only keep getting better.

As you've seen, nothing we're doing is specific to a channel, stores or digital. Everything we're building is a combination of the best of each channel working together to provide a wholly seamless experience for our guests. We're transforming stores to help support our digital growth. We're building our supply chain to enable better experience in-store and online. And we're thinking about our assortment from every angle, so guests are inspired no matter how they shop.

Now we recognize that given our current results, where we are today, simply isn't good enough. As we put in the work over the next few years, it is going to be a difficult journey. The investments we're making aren't simple and they aren't going to all pay off right away. But they are significant and they are ambitious because we know that being successful requires playing the long game, and that's the game we fully expect to win.

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Two years ago, fewer than 150 stores were shipping directly to guests. Today that's grown to more than 1,000 stores and counting. We've made changes to allow our team to focus on our core business in the United States with our decisions to exit Canada and sell our pharmacy business. And the team has done an outstanding job of controlling costs.

We beat our goal to take out a combined \$2 billion of SG&A and cost of goods these last two years. And when you look back at our bottom line results, it's been a pretty good couple of years. In 2014, we earned an adjusted EPS of \$4.22. It grew to \$5.01 in 2016. That amounts to an average annual growth of 9%.

Over that same time period, we returned nearly \$10 billion to our shareholders through dividends and share repurchase. That solid performance, better than many others have seen. Despite that progress, we haven't seen the growth we expected. On average our comp sales have grown less than 1% over the last two years.

More importantly, instead of building momentum we've been seeing a slowdown. Specifically, our comp sales and our traffic have moved from growth in 2015 to declines this last year. Given these results and the rapidly changing environment we must evolve our business model faster. By investing more aggressively, we can create a growth engine that will drive consistent, sustainable and profitable growth and market share gains.

The good news, we're not starting from scratch. We've been investing in the right things, but it's clear we need to pick up the pace, and that will affect our financial model. As always, our first priority is to invest in our business with a long view. As we look ahead, we have a big opportunity to grow share in a world where others will be scaling back.

Today, you've heard in detail about the investments we're making to transform all aspects of our business including our digital capabilities, small formats, existing stores, supply chain, exclusive brands, and core capabilities like data and analytics. To support these changes, we're planning to

And finally, consider our stores. They are more than 1,800 strong and a key competitive advantage. They're mostly off mall, they are very close to consumers, and they universally generate cash. I want to pause here and talk about why our stores are so strong, especially at a time when others may not be so fortunate.

We have long applied a rigorous process to decide where to build our stores. And we have an equally rigorous process to decide when it's time to close them. Every year we conduct a close/continue analysis on the entire store base, individually for each location. As a result, we have closed hundreds of locations over time.

The key is discipline. It's the reason we have a very healthy portfolio of stores. Looking ahead, our stores will still be the center of our business. But their roles will evolve. Within our smart network, stores will fulfill many roles. In addition to serving as a place where guests can shop in return they will also be a digital hub.

They will provide online order pickup and deliver directly to guests, and importantly, they will continue to offer genuine human interaction and engage in their local communities. As we navigate this transition, we will continue to apply a disciplined returns-based approach to all of our investments. At the highest level, we are focused on sales growth with a relatively stable base of invested capital.

We're focused on growing sales in all channels by transforming our assets, both our distribution centers and our stores. In addition, we will look for ways to streamline our asset base as our business evolves. For example, as we increase the speed of our supply chain, we have a significant opportunity to reduce inventory without hurting our in-stocks. In the last two quarters, you've seen the early signs of this trend.

But we have a lot of opportunity to take inventory out of our network. Finally, I want to emphasize that our priorities for capital deployment remain the same as they've been for many years. First, we invest in our business with a long-term view. Second, we support our dividend.

This year we are on track to deliver our 46th straight year of annual dividend growth. And finally, we engage in share repurchase when we have excess cash beyond those first two uses. We will manage our repurchase program within the limits of our credit rating. We may have some capacity during this transition period, but we won't be close to last year's pace given the changes to our financial model.

As I mentioned earlier, our strong balance sheet is providing valuable flexibility, especially during this key inflection point in our history. Looking ahead, maintaining this flexibility will be essential. Now let's turn briefly to our 2017 expectations, which were included in this morning's press release. At a high level, our guidance reflects a prudent view based on current trends and what we need to accomplish.

Let's start with sales. We're planning for a low-single-digit decline in comp sales this year. While this is not where we want to be, we believe it's prudent based on a couple of key factors. First, it reflects strong digital growth that has not fully offset declines in our stores. And it reflects the view that our investments will not have immediate impact on our near-term performance.

As I've said many times, we stand ready to chase stronger comps when we have the opportunity. In the meantime, we will plan our business prudently. On the EBIT line, this year we are planning to generate about \$1 billion less than last year. This reduction reflects investments in enhanced store service, the continued shift into digital, support to develop, launch and market new exclusive brands, gross margin investment to ensure we are competitively priced, and additional D&A from investments in existing stores.

Now I will give you some insights in how this will play out in our P&L this year. About half of the \$1 billion investment will be on the SG&A line. Approximately \$400 million will be on the gross margin line, and the remaining pressure will be in D&A. Obviously, D&A is a non-cash expense, but this pressure will show up in the P&L.

Altogether, we're planning for GAAP and adjusted EPS of \$3.80 to \$4.20. We know this is a meaningful departure from both our prior performance and expectations. But this change is essential to position our business for faster growth. Now let's turn briefly to our expectations for the first quarter.

In February, we faced a challenging and choppy environment. We saw some improving trends near the end of the month. While that's encouraging, we believe it's prudent to plan for challenging trends to continue for the rest of the quarter. As a result, we're planning for a low- to mid-single-digit comp decline in the first quarter.

This is the softest quarter comp that we're planning for the whole year. As a reminder, we're comping over our strongest quarter last year, and our full-year outlook includes the benefit of store remodels and brand launches. On the EBIT line, we're planning for a decline of about \$400 million from last year. The majority of this decline will be on the gross margin line.

Altogether we're planning for both GAAP and adjusted EPS of \$0.80 to \$1.00. I know the magnitude of this change to our outlook is unexpected, but we must make these changes to position our business for the long term. Brian began the day by outlining the seismic shift we're seeing in the consumer and retail landscape. Our leadership team has spent a great deal of time studying what this shift means for Target.

Because of that analysis, we are confident this is the right path forward. We're fortunate to have tested, prepared, and built a foundation over the last couple of years. Now it's time to accelerate the transformation of our business model. Our goal today has been to clearly show you where we are investing in that new model.

We're building a smart network that's more agile and reliable than ever before. A network that will be equally capable of inspiring and fulfilling physical and digital shopping. We are investing in stores that will look different and function differently than they do today. We are completely transforming our supply chain, becoming meaningful faster, more efficient and more accurate.

And finally, we're delivering an even stronger portfolio of exclusive brands. So now, before turn it back over to Brian, I want to spend a minute talking about what makes our approach different. We anticipate a lot of disruption in the retail landscape. We want to position ourselves to gain share as those changes occur.

We've seen a lot of stories this year, you've seen a lot of stories this year. Retailers are closing stores and closing businesses across the country. We are positioning our sales to play offense. We're going after that share market by market, but it is going to be a little noisy in the near term. So at a time when many others are shrinking, we are investing.

We are investing in two pillars of growth, our stores as multi-purpose assets within a smart network, and our digital capabilities as we continue to gain share in e-commerce. Unlike the past, we are not providing explicit guidance beyond this year. I understand you have a desire for us to provide detailed, longer-term guidance. However, given the amount of uncertainty we are facing, providing multi-year guidance would be a case of false precision.

And given the transition we're planning, we believe it's important to focus on the Company we will become. With the investments we're making, we will be best positioned to deliver positive in-store comp sales and a rapid and profitable growing digital channel, stable to growing enterprise profit margins, continued strong cash flow, and the ability to return capital to shareholders, and superior ROIC over time. But let me be clear, this will be a multi-phase, multi-year journey.

This year will be an investment phase, we will move to lower margins to enable faster growth in the future. Beyond this year, we will continue into a transition phase. We will invest capital to transform our supply chain, digital capabilities, new stores and existing stores. As we move past the transition, our new business and financial model will stabilize. And we will deliver sustainable, reliable growth over time.

And finally, timing of new brand launches and how those brands perform. Our Company was founded over 100 years ago, and the first Target store opened more than 50 years ago. We are investing to position this Company for success over the next 50 years. That's what we mean when we say we are taking the long view. Thank you.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Thank you, Cathy. I know we have covered a lot of ground this morning, but I'd like to build on what Cathy just said. Target has been a great American retailer for more than 50 years. But our roots stretch back even further than that. As many of you know, our Company started out as Dayton's Dry Goods, just around the turn of the last century.

That business evolved into a prominent chain of department stores which led to a string of retail firsts, including the first indoor shopping mall, the first discount mass retailer. And later, the acquisition of Mervyns and Marshall Field. You know the story from there. Evolution is in our blood.

And out of every period of disruption, our Company has always forged ahead into the next era. So when you think about what's in front of us, the seismic shift in consumer behavior that's disrupting our industry, we're doing what we've always done. We're taking the long view, investing to compete, investing to grow, and we have the financial strength and the resources to build a new Company. One that's poised to lead, positioned to win in this next generation of retail. So look ahead three years from now.

We talked about what we will deliver, new stores, new formats, more than a dozen new brands, a coast-to-coast smart network enabled by new digital capabilities. To our guests, the entire experience will look and feel like a completely new Target. While many of our competitors are cutting costs and just trying to survive we are doubling down. We know there will be meaningful opportunities to capture additional market share now and in the long term.

So we are aggressively deploying capital to expand our reach, reimagine our physical stores, and transform our supply chain. We are investing in margin to accelerate and unlock even greater digital growth. We are investing in price to ensure we are competitive across our assortment every day, both online and in-store. And we're investing in speed to move faster than we ever have before.

This is the plan that will produce the Target of the future. This is the plan that puts Target back on the path to profitable growth. This is the plan that will create shareholder value and deliver guest love and loyalty for many, many years to come. So I want to close by thanking you for joining us this morning.

And now I'm going to invite John and Cathy, as well as Mike Tritton, our Chief Merchant, and Mike McNamara, our Chief Digital and Information Officer, to join me onstage so we can spend time taking your questions. We've got lots of mics, we've got lots of time. So we will try to work our way around the room. If you could, introduce yourselves, I would appreciate that, and we're happy to take your questions. So why don't we start right up front.

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## QUESTIONS AND ANSWERS

**Chris Horvers** - *JPMorgan - Analyst*

Thanks, good morning. Chris Horvers, JPMorgan, and thanks for having the meeting. Trying to dig a little bit into the gross margin pressure, understand the first quarter you will have some pressure from markdowns and clearance. But then over the balance of the year, some channel shift pressure, as well as price investments.

Can you talk about the latter? What you're expecting in terms of gross margin pressure from the digital and pricing pressures? Will pricing largely be reset in 2017, and then we sort of neutralize from there? And is it your expectation that over time the supply chain improvements ultimately stabilize the gross margin, and is that an 2018 event? Thank you.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Chris, let me talk about the pricing investments we're making. And I think, as most of you know, coming out of the data breach, we invested heavily in promotions. As we go forward, we're going back to our roots and reestablishing our everyday low price commitment. So that's going to take some time. It's starting today.

We're going to make sure that we reestablish our value with the guest. There's an investment we have to make. And we also recognize we have to continue to invest in digital, to grow that channel, to continue to make sure we are accelerating market share. You're going to see us invest in 2017.

As John talked about, we expect greater efficiencies over time. One, as we continue to optimize our digital performance, but importantly, as we transform our supply chain. But in the short term, we have to compete, we have to invest to make sure we're delivering the value the guest is looking for. We want to make sure we're taking market share, both in-store and online, and we think those are two very important investments in the near term that provide long-term benefits for the Company.

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**Michael Lasser** - *UBS - Analyst*

Hi, it's Michael Lasser from UBS.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Thank you.

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**Michael Lasser** - *UBS - Analyst*

Thanks, Brian. I think the key question is we all appreciate that you don't want to provide long-term guidance, but how long are you anticipating it's going to take for you see a return on all the investments that you're making? Is it reasonable to expect that you are going to return to earnings growth in 2018, 2019? When should we expect that?

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

I will go back to what Cathy talked about just a few minutes ago. We certainly view 2017 as year of investment. In 2018 we will continue to transition as these different initiatives begin to mature. As we get into 2019 and beyond, we certainly expect stability and a return to growth. That's the model we are looking at.

We can't lay it out for you quarter-by-quarter. We want to make sure we're properly investing and accelerating these initiatives. And if there's a message I want everyone to walk away with today, these aren't new initiatives. We've been working on these for several years. Now is the time for us to go faster.

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**Craig Johnson** - *Customer Growth Partners - Analyst*

Craig Johnson at Customer Growth Partners. Brian, I understand the importance and the necessity that you've talked about doing here today. I want to look forward to how do you get back to growth. One pillar of growth, of course, is traffic growth, hallmark of all great retailers, is consistent traffic growth. And you showed to earlier in Costco and TJ Maxx and it applies to Wegman's and Home Depot. The question is, could you get more granular on how you can actually rebuild share-of-trip missions as a way of getting a share of traffic?

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**Brian Cornell**



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**Cathy Smith** - *Target Corporation - EVP and CFO*

Robby, I will quickly address store portfolio. As we said, we've had a very disciplined process forever. The team has done a great job. Our pace doesn't change, we've been closing about 10 to 15 stores a year, that has been consistent year in and year out. We will continue to do that, but that's just normal course for us. We look at every store every year and say does it make sense to keep open. Today the answer is, yes. Universally generate positive cash

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

**Peter Benedict** - *Robert W. Baird & Company, Inc.* - Analyst

Peter Benedict of Robert Baird. I was hoping you could maybe speak in a little bit more detail about your view of grocery, that side of the store. How's that going to look in the reimagined store? And then, Cathy, maybe a little view as to how much it costs to do the remodels and how long it takes? Thanks.

Great proof of concept in 2016 with the launch of who, what, where, Pillowfort and, of course, Cat & Jack, that showed us where we replaced our strengths with a new focus we could create double-digit comps and guest love and trips for our store. So we've taken key areas across -- men's, women's, home and kids and are going to amplify our offers there and redefine. In terms of overall space, we're just utilizing our existing space and really refreshing that. One of the things we're excited about in 2017 is this combination of new brands, capital investment in the space for those brands, but also the addition of extra resources like visual merchandising. They're really going to create a new experience for the guest in-store and create real excitement.

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**Mark Miller** - *Crystal Rock Capital Management - Analyst*

Hi, thank you. Mark Miller with Crystal Rock Capital. You talked earlier about making price investments across essentials. I wanted to ask, what do you think is a risk that you've taken too much margin on exclusive items? UPT has come down but average ticket has gone up with price per item. I thought also it might be helpful if you could share market research on the customer's perception of value on exclusives now versus several years ago? Thanks.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Why don't I start. I think the proof is in the results we've delivered. Outstanding results, as we've talked about with the launch of Pillowfort. The same thing has been true with Cat & Jack. This is an example of where we've gotten the value equation right.

Great quality, on trend, at a great value and the guest response has been terrific. That's the same approach Mark is going to take with each one of those new brands, making sure we combine great quality, items that are on trend for the consumer with the right value that drives trips, but also makes sure the guest recognizes they're getting value from Target, so coming back to our brand promise. Expect more and pay less. Those elements have to work hand-in-hand with our new brands going s toMrd

efficiently and more quickly in each because that is what is required for direct-to-guest. Out to the stores and then from the store directly to the guest and do that quickly.

You will see us this year, as I said, start to make those changes in the Northeast. Several pilots are already underway that have significantly improved our speed to guest. And, as I said -- as Cathy said, we will continue to come back and report on how we're doing. But that is the heart of what we're doing. That becomes the basis for improving. Everything Mike can do is giving him flexibility to put services on top and to deliver at whatever speed the guest wants. In a store like Tribeca that could be today. Hey, I came in, picked up my five things, I'm going to go run some errands with the kids, deliver this to my house in three hours.

It could also mean, hey, bring this to my house in 10 days, this patio set, bring it to the back of my house, set it up, detrash it and take the garbage way. It's really about flexibility and speed and allowing the guest to choose how they want to interact with us. And that's what we're building the platform of our supply chain around.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Kathy, why don't I start by talking about the competitive landscape and let Cathy talk about guidance. But to your point, we certainly see over the next three years significant market share opportunities as we see the contraction in our competitive store base. And that is going to be particularly true in the apparel and home spaces where we're strongest. But we also recognize, as you do, as many retailers are closing stores, if not exiting the

we don't have a full service grocery experience. We don't have meat and seafood counters, we don't have deli counters. We don't provide a full assortment of experiences and services that many of our full-line competitors do.

But we can offer a great self-service, convenient experience. And that starts with the right quality, the right assortment, the right in-store experience, great value. We've got to make sure we are supplying those products to our guests every single day to make sure the freshness is there. So we are embracing who we are. And we want to make sure that the guest knows while they're shopping at Target there is no compromise.

We've got to build trust, we've got to make sure that while they are there shopping for their baby, picking up a toy for a Saturday night birthday party, picking up something new to wear for dinner that night they have confidence in the selection and breadth of food products we offer. We are being true to who we are and we're not a full service grocer. We don't have rotisserie ovens in our stores, but we do have the right allocation of space and selection to compete and be that convenient alternative in food, and we're going to hold on that going forward.

We're very pleased with the response we've seen in Los Angeles in Dallas where we enhance that experience, where we improve the assortment. The reaction, as Mark talked about, to categories like craft beer and wine that fit in very well with the Target guest. We've got to strengthen that offering, make sure we have got great quality, the right assortment, that we've got the right experience in-store. And that we provide the right value the guest is looking for. So we will continue to build off of that going forward and make sure that while our guests are shopping Target they are also shopping our food and beverage offering.

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**Mark Tritton** - *Target Corporation - EVP and Chief Merchandising Officer*

Yes, I think our space is set. We're not talking about flipping or divesting or investing in more space, it's how we utilize the space more definitively. And I think that what we've learned in these test markets is the role of fresh and convenience in creating trips and creating guest love as being very powerful. Reformatting the space and really curating the assortment is more of what we're focused on rather than wholesale changes to macro space.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Mike, why don't you talk about where we are with digital?

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**Mike McNamara** - *Target Corporation -*

investments have improved the guest experience. We've almost doubled our guest satisfaction rating over the course of the year whilst we grew the business at twice the rate of the market. And we see that again going into this year.

There will be a relentless focus on the guest experience going forward. All the work that John and his team are doing to reconfigure our supply chain will give us a lead time advantage and a cost advantage as we deliver more and more parcels to our guests doors. The work that Mark is doing on assortment and creating exclusive product, exclusive brand for Target that isn't available anywhere else will be vital to our online merchandising going forward. We will always look at other ways maybe of how we might expand our assortment online, but right now we've got our sites fairly firmly focused on how we can get to guests quicker, how we can execute flawlessly, and how we can bring exclusive brand and product to our guests.

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**Bryan Cameron** - *Dodge & Cox Funds - Analyst*

Good morning, this is Bryan Cameron, Dodge & Cox. Thank you for your presentation this morning. With all the seismic shifts that are going on in retail, as you outlined, I'm guessing you've considered other strategic alternatives to the one you outlined this morning. What were some of those alternatives and why is the one you outlined you think the best for the Company going forward?

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Bryan, we spent a lot of time as a leadership team looking at different alternatives. There was only one path forward. That's the path we've chosen. We've got to win best to grow. We've got to reimagine our stores, we've got to enter new neighborhoods, as we're doing with these small formats. We've got to transform our supply chain. We have to build out the digital capabilities required in this environment.

We have to continue to elevate our proprietary brands. And I think most importantly, we just have to embrace the realities of this new era of retailing, and make sure that we also embrace the way consumers are shopping today. We certainly debated whether there were other options. Every time we came to the table there was only one conclusion, and it's the path we've chosen to follow. We think this is the right path for our Company, the right path for our shareholders, and ultimately, it's a path back to growth and an expansion of market share.

We've done our homework, we've looked at this from every different angle. This was the path we kept coming back to, it's the right path for the Company today. It will be the right path for the Company 10 years from now.

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**Greg Melich** - *Evercore ISI - Analyst*

Hi, it's Greg Melich with Evercore ISI. I had three questions and I will make them quick, into one. Cathy, does the guidance for this year assume that comps turn positive by the fourth quarter? Second is on CapEx, when we look at that \$7 billion budget over the next three years, if you could break that down into existing stores, new stores, supply chain and give us some sense of where the money is actually going?

And then lastly, and maybe, I don't know who this is for, but for everyone, I guess, Brian, what will you be watching to know that this is working so that basically we want to double down or not, or the go the other way towards the end of the year? And specifically, there was an interesting comment, can't remember who made it, that our cheapest way to fulfill is through the store. I would love to just hear -- that sort of shocks me given what we're seeing Amazon do and others, so just why is that true for Target, and maybe not true for some of the others?

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Greg, why don't I start with the metrics, the things that we're going to be watching closest. It's going to come back to, we're going to watch the guest. How does the guest respond when we reimagine a store? How do they respond when we move into new neighborhoods? How do they respond when a new digital offerings? How do they respond as we roll out new brands?

Ultimately, that guest satisfaction and that guest vote is the most important one. And when they are in our stores more frequently and visiting our site more frequently, and shopping with Target versus other retailers, we know we are winning. But we're going to clearly monitor the guest reaction as we remodel these next 100 stores in 2017, and we continue to accelerate with another 30 small formats. And as Mark introduces new brands throughout 2017, and Mike enhances our digital offering, it's going to come back to the guest reaction. And we are fighting for footsteps, we're fighting for clicks online and we're fighting for a share of mind.

So for this to be a growth story, it is all about gaining market share and that starts with building greater trust, greater loyalty with our guest. So we will be watching that each and every day across these initiatives we've laid out today.

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**Cathy Smith** - *Target Corporation - EVP and CFO*

Yes, Brian, maybe I can address the other two questions, Greg. This is a multi-phase, multi-year journey, and we tried to make sure we set that expectation. We are recognizing that the environment is going to be disruptive. And we've got a ton of work still to do, although, we're not we're not starting from scratch, we're going to accelerate that pace and that investment.

We are not, and we guided that in our guidance, planning for anything but low-single-digit negative declines this year. And that's what we said, it's an investment year. As we move into transition and then we will get into stability where we can sustainably, consistently drive profitable growth and market share gains, and so I want to make sure we do set that expectation appropriately.

On your question with regards to how the capital allocation is being spent over, that \$7 billion investment over the next three years, it's really in the three areas of Brian talked about, the three big areas. The biggest ones being, obviously, as we reimagine our stores because they will still be

And finally, on the topic of big data and data sciences, how does that interplay with how we should think about the model over the longer term and what does that mean for what consumers want versus where you can deliver data science, whether it be supply chain, re-channel or predictive analytics, giving people something they don't even know they want? Thank you.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Oliver, let's try to unpack those questions. Let me start with the last one, as we've think about the role of data science and analytics. I made the comment that three years ago this was a nascent capability for us. It's now quickly become one of the strengths of the Company. We're applying that across all of our various functions.

It's helping Mark and his merchant team make better choices. It's certainly enabling some of the work that John is leading from a supply chain standpoint. It's influencing how we lead and manage our stores.

And Mike can talk about the important role it plays as we think about digital and the personalization of our communication. Data science is going to play an important role across all of our functions going forward to make the Company focused on the right decisions, smarter decisions, more personalized decisions. Mike, why don't you talk about the role that it has played just recently as we think about digital and how we are interfacing with the guest?

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**Mike McNamara** - *Target Corporation - EVP and CIO*

I think, as Brian says, it's an important, it's a very important growing area for us. Data sciences team out in Sunnyvale we have over 40 PhDs who are doing nothing but thinking of clever ways to how we tune our supply chain and how we personalize the offer to our guests, particularly online. One recent improvement they've made is on some of the bottom recommendations that we give on our homepage.

We've seen an eightfold improvement on conversion rate on that. We do note that as you make that experience more relevant to the guest that we will improve our sales online. It will improve our conversion rates. That's just one example. And I've seen a lot of examples in John's area around how we are improving sales forecasting and our ordering algorithms which has helped the flow of stock all the way through our supply chain.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Let me try to come back to your question around the consumer trends, the role of the Millennial, how that takes shape over the next three to five years. I think as we look at it today, I will start with the investment we're making in our stores. And as we've looked at the outlook, as you've done the math, while we expect this continued accelerated shift to digital, stores are still going to be very important. And pick the number three years from now, the stores represent 85% or 80% or 75% of the business. I don't know?

But even if they are 75% of the business three to five years from now they are still the dominant portion. What we know every time we talk to the consumer, every time we talk to the guest, they crave experience. If they're going to shop a physical store, they want it to be a great experience. We've seen the reaction to the changes we've made with visual merchandising.

Some of the things that Mark and his team are bringing to light every day in our stores in our apparel and home categories. We have to make sure it's a great experience. If they're using our stores as a smart pickup point, we need to make sure when they come to our stores they are greeted by phenomenal team members who can quickly find their order and invite them to shop more often. So we've got to make sure that experience is critically important in our stores.

We know going forward that Millennial consumer that we serve, they are going to be digitally connected, and their shopping experiences are likely always going to start with that digital device. Then they will choose whether they want it delivered to their front door, they want to pick it up, or they just want to make sure they know where the products are placed inside of that Target store in their neighborhood. So we've got to embrace



the way consumers are shopping, but we recognize when they come to a physical store they expect a great experience. When they shop online, they want it to be really easy.

When they come to pick up a product at one of our 1,800 stores, we've got to make sure the product is there, we've got the right items and we invite them to enjoy the convenience that we did the shopping for them. Now they can take the next 20 minutes and explore the store and discover and enjoy the merchandise that we have to offer. So physical stores will continue to be important. But we have to reimagine that store experience.

Today's Millennial shopper doesn't enjoy shopping one of our tired stores that has not been touched in 10 years. But they love the reimaged stores and they give us that feedback, as we've remodeled stores in Los Angeles and we have reimagine stores in Dallas, or as we open up new flex formats. The feedback we are receiving is sensational. And they use those flex formats, those smaller stores as places to fill in, but they're filling in two or three times a week.

We are looking at it very carefully, but we know stores will be very important, but it's going to be part of our smart network where we combine the digital experience, the store experience as one and make it really easy for the guest to connect with Target any time they want, any way they want in their local neighborhoods and towns.

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**Brandon Fletcher** - *Sanford C. Bernstein & Co. - Analyst*

Brandon Fletcher with Bernstein. We see your competitive advantage as assortment and service, so when you talk about new brands, we love it. When you talk about service online and integrated ordering, matching online, awesome. Doing the picking from DCs for each is genius and I think only you and the Home Depot are close there. The only place we get nervous is when you say things about price and convenience. I've sat across way from many CEOs who were desperately trying to drive traffic with price investments when they were not the low cost operator, and it just doesn't usually work.

And if you're seeing death in department stores and retailers and sub-scale groceries, where you guys are already way better on price, are you really sure you need to invest that heavily? And the, secondly, is, with the rollouts to new project touches in stores will folks with disconfirming evidence have as much access to leadership as those with confirming evidence? You guys have been extremely disciplined in the way you did LA25, but it's hard to get right. So those are our two questions. Thanks, guys.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

Let's go back to pricing. Let me make sure we are really clear about what we're doing and why. We spent a lot of time looking at the changes that we had made following the breach. We were very promotional. That promotional intensity has actually continued.

As we go into 2017, you're going to see us get back to our roots, get back to establishing every day low pricing in those essential categories. There will be a transition period, but it's really going back to it's always worked for us in the past, and moving away from that promotional intensity, the reliance on big promotions to making sure we give our guests the confidence and trust that every day they shop in our stores for those core essential items they're getting a great value. It's a transition, there's an investment involved in that, but it's really getting back to it's made as great going in the past and really making sure that's part of what we bring going forward.

We will continue to be very disciplined. As we talked about the question about capital allocation, we're still going to be Company that will continue to innovate, innovation is very important. Innovation is alive and well at Target. But we're going to make sure we test, we learn, we validate. The innovation has to benefit our core enterprise. It has to translate to driving more traffic to our stores, more trips to our site, greater guest loyalty and engagement.

Innovation will be an important part of our future. We will do it, as we've done in the past, in a very disciplined way. When things don't work we will shut them down. When we need to iterate, we will continue to iterate and learn, and when we've validated the model we will step on the

accelerator, as we are right now, and we will move forward quickly. I guess we've got time for one only last question. Why don't we go over here. Scott?

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**Scott Mushkin** - *Wolfe Research - Analyst*

Thank you. Scott Mushkin from Wolfe Research. I wanted to ask a couple questions, one is just clarification, the cost of the remodels, I don't think we actually got that number, and I was wondering if we could get it? I was hoping for an update on store execution, specifically in-stock, I know that was a big focus?

And then the final question would be around price investments. You have two large competitors driving down price, most notably Walmart, but also Amazon is doing a lot of work with their Subscribe and Save and those prices are very low. What gives you the confidence that it's one and done here, as one of your largest competitors on a multi-year price lowering campaign? Thanks.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

John, you want to start with stores and then I will come back and talk about pricing.

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

Yes, just to check off really quick, cost of a remodel for a prototype, what we call a P store, \$5 million, \$5.5 million, a little less for lower volume stores, a little more for higher volume stores. Super Target, what do you think, Cathy, about double?

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**Cathy Smith** - *Target Corporation - EVP and CFO*

No, a little less than that.

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

A little less than double. Store execution, I would say two things about. One, on out-of-stocks, made a lot of progress. When we talked about it last year they had improved by about 40% last year, almost another 15% improvement. We've seen significant improvement in doing what we do today. The next leap in improvements in out-of-stocks in our stores will come from fundamentally changing the supply chain, which is what we talked about today. That's on course, and we will keep working on them and we'll update you as we go forward, I guess.

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**Brian Cornell** - *Target Corporation - Chairman of the Board and CEO*

And, Scott, I will finish by talking less about price and lot more about value. We know we have to be competitively priced every day on those core essentials. But we win when we deliver a compelling value, which means a great in store experience. Which means new exciting brands, which means surrounding the guest with great team members, which means a great online experience that's easy and friction free.

So it can't be just about price. It has to be about value. And value is the combination of all the things we do and historically have done so well. We've got to make sure we surround the guest with a great in-store experience. The reaction we've seen as we have brought visual merchandise to like in our stores has been fantastic. We've got to continue to build compelling brands that deliver great value for the guest.

We've got to surround them with a great experience, whether they're picking up an item or checking out in our stores. And that's got to translate to how we interface with the guest online. Value is critically important. We think we're positioned in a way that's unique in the industry with our assortment, our in-store experience, our multi-category portfolio, the capabilities we've now built online and the changes we're making in-store.

That's what gives us so much confidence that we are on the path back to growth. That it will take time, but there's going to be significant market share opportunities in front of us, and three years from now when we've reimagined stores, and we are in new neighborhoods, and we've rolled out new brands, and we've got it great new supply chain capability to complement what we've done from a digital standpoint, we will be sitting here talking about the new Target, a growth Company that's captured market share in this new era of retailing. So I appreciate your time and your patience today. Thanks for joining us, and we look forward to talking to you in the future. So thank you.

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