CORPORATE PARTICIPANTS

A. Christina Hennington *Target Corporation - Executive VP & Chief Growth Officer*

Brian C. Cornell *Target Corporation - Chairman of the Board & CEO*

John Hulbert *Target Corporation - VP of IR*

John J. Mulligan *Target Corporation - Executive VP & COO*

Michael J. Fiddelke *Target Corporation - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Christopher Michael Horvers *JPMorgan Chase & Co, Research Division - Senior Analyst*

Edward Joseph Kelly *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Joseph Isaac Feldman *Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst*

Karen Fiona Short *Barclays Bank PLC, Research Division - Research Analyst*

Katharine Amanda McShane *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Robert Frederick Ohmes *BofA Securities, Research Division - MD & Senior US Consumer Analyst*

Scott Andrew Mushkin *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation First Quarter Earnings Release Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded, Wednesday, May 18, 2022. I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

John Hulbert - *Target Corporation - VP of IR*

Good morning, everyone, and thank you for joining us on our first quarter 2022 earnings conference call.

On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; Christina Hennington, Chief Growth Officer; John Mulligan, Chief Operating Officer; and Michael Fiddelke, Chief Financial Officer. In a few moments, Brian, Christina, John and Michael will provide their perspective on our first quarter performance and our outlook and priorities for the second quarter and beyond. Following the remarks, we'll open the phone lines for a question-and-answer session.

This morning, we're joined on this conference call by investors and others who are listening to our comments via webcast. Following the call, Michael and I will be available to answer your follow-up questions.

And finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our most recently filed 10-K. Also in these remarks, we refer to non-GAAP financial measures, including adjusted earnings per share. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, which is posted on our Investor Relations website.

With that, I'll turn it over to Brian for his thoughts on the quarter and his perspective on our outlook. Brian?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Thanks, John, and good morning, everyone. Our first quarter results demonstrate the underlying strength of the relationship we've built with our guests at a time when our team is working through multiple cost pressures affecting our business. As expected, our business continued to grow in the first quarter, on top of huge gains a year ago, underlying the resilience of both the consumer and the ability of our team to serve them. However, due to a host of factors, this growth was challenged by unusually high costs, resulting in profitability well below what we expected to be and where we expect to operate over time.

First quarter comparable sales grew by 3.3%, on top of 23% growth a year ago. This marked our 20th consecutive quarter of comparable sales increases. 11 of those quarters were before the pandemic, followed by the rapid acceleration we saw in 2020. We're also encouraged that traffic continues to fuel our growth, increasing nearly 4% in the quarter, on top of 17% growth a year ago.

Our first quarter gross margin rate was well below our expectations, reflecting a combination of factors that prove to be very different than expected, driven by a rapidly shifting macro backdrop and changing consumer behavior. More specifically, we saw much higher-than-expected freight and transportation costs and a more dramatic change in our sales mix than we anticipated. This resulted in excess inventory, much of it in bulky categories, which put additional strain on an already stretched supply chain. Christina, John and Michael will share more details shortly.

And while we have a lot of work ahead of us to restore profitability to the level where we expect to operate over time, I want to thank the team for maintaining their laser focus on the guest experience. We've spent years growing Target's relationship with our guests, which is fueling the traffic and sales growth we're seeing today. In sustaining that guest focus, we're confident we'll see deeper loyalty and profitable sales growth in the years ahead.

On our sales channels, first quarter comps were balanced between store and digital as each increased a little more than 3%. Within our digital channel, growth continues to be led by our same-day services and Drive-Up in particular which delivered growth in the mid-teens this year on top of more than 100% growth a year ago.

Since Q1 of 2019, prior to the pandemic, first quarter sales have grown more than 40% or just over $7.4 billion. Broken down by channel, store sales accounted for about $4.1 billion of this increase, while digital sales grew another $3.3 billion, having expanded by more than 250% over that time.

From a category perspective, we continue to benefit from our balanced multi-category portfolio, which allows us to flexibly serve our guests as their wants and needs change. More specifically, in the first quarter, we continue to see strong growth and market share gains in food and beverage and essential categories. We also benefited from double-digit comp growth in Beauty, reflecting our ongoing work to enhance presentation, assortment and service, including our new and expanding partnership with Ulta Beauty. The results of this partnership have exceeded our initial expectations, driving higher productivity and sales in both Beauty area, and adjacent categories in the store, where we've added an Ulta Beauty experience.

In our other 3 core merchandise categories: Apparel, Home and Hardlines, we saw a rapid slowdown in the year-over-year sales trends beginning in March, when we began to annualize the impact of last year's stimulus payments. While we anticipated a post-stimulus slowdown in these categories and we expect the consumer to continue refocusing their spending away from goods and into services, we didn't anticipate the magnitude of that shift.

As I mentioned earlier, this led us to carry too much inventory, particularly in bulky categories, including kitchen appliances, TVs and outdoor furniture. And with very little slack capacity after 2 years of unprecedented growth, we faced elevated cost to store and had begun rightsizing our inventory position.

Nevertheless, we're still seeing healthy overall spending by our guests, even as their spending continues to evolve. Notably, we continue to see meaningful spending surges around holidays, including Easter in April and Mother's Day a couple of weeks ago.

Also notable, in comparing this year's weekly sales to pre-pandemic levels at the beginning of 2019, we're actually seeing stronger 3-year growth trends in recent weeks compared with the beginning of the first quarter, even in categories where we saw a rapid slowdown on a 1-year basis. These encouraging longer-term growth trends demonstrate the continued resilience of the American consumer and the trust they place in Target even as they face multiple challenges.

Not surprising, when we talk to our guests, they often express their concerns about a host of rapidly changing conditions, ranging from geopolitics to the high and persistent inflation they've been experiencing, particularly in food and energy. At the same time, guests are focused on getting back to many of the habits and behaviors they suspended during the heart of the pandemic, including travel, out-of-home activities and social gatherings. And importantly, even as the mix of what they're buying continues to evolve, their spending capacity continues to benefit from elevated saving rates, high employment and healthy wage growth.

So as we continually adapt our offering to best serve our guests in a rapidly changing environment, today, we're focused more than ever on in early 2017 were followed by profitable growth in later years, we're confident the decisions we're making today, combined with our investments in future growth, will pay off handsomely over time.

With that, I'll turn it over to Christina.

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Thanks, Brian, and good morning, everyone.

Just a few months ago, at our Financial Community Meeting, my presentation outlined our strategic vision as a company. While I covered many facets of our strategy that day, where I started then is where I want to start again today, with our guests. We frequently get questions about how our guests are feeling given the current economic environment, how their shopping habits are evolving and what's top of mind for them.

Our guest base encompasses every slice of the American population given that we serve nearly 20 million guests on average each and every week. And the breadth of their individual decisions as they navigate a rapidly changing macro environment is just as broad, making the answers to those questions that much more complex.

A guest might be telling us that they're worried about inflation and rising gas prices. But they're also looking to splurge on new shoes or some accent pillows for their home. Another guest remains worried about COVID, but they're still planning to resume travel and looking forward to summer outings like Little League games and barbecues with friends. Many guests are sharing their uncertainty of the overall state of the economy, but are feeling more positive about their personal finances. With so much on their minds and a wide array of wants and needs, it has never been more important for Target to be flexible and provide ease, safety, inspiration and solutions for all of our guests.

In the first quarter, we invested in delivering a great guest experience to build and maintain the trust and love for the Target brand. And those decisions came with substantial costs. I'll share more on this shortly. Our first quarter results reinforce the power of our multi-category portfolio, which allows us to lean into those ever-changing wants and needs.

More and more, we are seeing our guests' increasing mobility and love of newness play out in their Target purchases as baskets shift more toward experiences and going-out categories. This includes notable strength in fashion forward apparel, prepaid cards, toys and travel. While apparel basics moderated in the quarter, trend-based apparel accelerated meaningfully as increasingly, people are returning to the office or dining out with friends. We're also seeing robust growth in Beauty, driven by particular strength in going-out categories like sunscreen, color cosmetics and fragrance. Luggage grew more than 50% as the world continues to reopen, and we reunite with the places and people we have missed visiting.

And our owned brand portfolio continues to grow faster than total sales, as it has quarter-after-quarter for years now. We continuously benefit from the growing guest affinity for our owned brands, which are designed to drive trips to Target, not simply to provide another option when guests are already in a store. Our guests appreciate the value, quality and great design they have come to expect and love from Target owned brands, even as they continue to appreciate our national brand options and partnerships as well.

As Brian outlined, our team delivered just over 3% in comparable sales growth in the first quarter, in line with expectations, reflecting strong traffic and unit share gains. First quarter growth was strongest in frequently purchased categories, including Food & Beverage, Beauty and Essentials.

Food & Beverage, which delivered low double-digit growth this quarter was strong across the entire assortment. Over the last 3 years, first quarter Food & Beverage sales have increased by nearly $1.8 billion, accounting for nearly 1/4 of our total sales growth over that time. Market share gains in this category are being driven by unit share growth, most notably in our owned brand offerings, as more of our guests turn to Good & Gather and Favorite Day for their meal solutions.

Beauty has been one of our fastest-growing categories for years now and grew again in the low double digits in Q1 as guests spend more time outside of the home and want to look and feel their best. Since the first quarter of 2019, Beauty sales have expanded by more than 45%, the vast majority of which occurred before our rollout of the Ulta Beauty at Target experience, evidence that there is still plenty of room for growth in this category.

Essentials grew in the high single digits in Q1, having added well over $1 billion in first quarter sales over the last 3 years. Notably, nearly $0.5 billion of that growth happened after 2020, when we saw explosive demand for categories like household paper, over-the-counter and cleaning supplies.

Across our other core categories: Apparel, Home and Hardlines, we saw small declines in comparable sales this quarter. In Apparel, despite unfavorable weather across most of the country, comp sales remained nearly flat to last year, having grown more than 60% in the first quarter a year ago and nearly $1 billion since the first quarter of 2019.

In Home, even after a small pullback in Q1 comps, sales remain more than 40% higher than the first quarter of 2019, equating to more than $1.2 billion in growth over that time. Our seasonal categories continue to excel as our guests turn to Target for all of their holiday and celebratory solutions, leading to all-time records in the recent Valentine's Day and Easter seasons.

And notably, guests are finding new ways to enjoy and celebrate the spaces they've invested in over the past few years. Having already renovated their homes with purchases in categories like furniture and small appliances, guests are now refreshing their homes with smaller touches, driving demand in categories like decor, candles and seasonal assortments; further evidence, not just of the strength in our multi-category portfolio, but the breadth of what we offer within categories as well.

Hardlines saw a slight pullback in Q1, but has grown more than $1.3 billion since the first quarter of 2019. Within Hardlines, guests have been refocusing their spending away from electronics like TVs and into experiences for both kids and adults, which led to strength in our toys, travel and prepaid card categories.

As Brian mentioned, first quarter gross margin performance was well below our expectations. This was driven by a number of factors, the most impactful of which was softer than expected sales in several categories, resulting in too much inventory in those areas. As we developed our plans for the quarter, our task was to anticipate how spending would change under circumstances no one had ever seen before given that we were about to compare over 2 years of historically high federal stimulus payments. As such, we relied on numerous forecasts and estimates, both internal and external, to help determine our view for the quarter. Despite this careful approach, the mix of actual demand materialized differently than we had anticipated.

In addition, as supply grew and demand shifted away from bigger, bulkier products like furniture, TVs and more, we needed to make difficult trade-off decisions. We could keep this product knowing it would sell over time or we can make room for fast-growing categories like Food & Beverage, Beauty, and personal care and Household Essentials. To preserve the quality of on-shelf presentations and support the guest experience, we chose the latter, leading to incremental markdowns that reduced our gross margin. While these were difficult decisions, we believe they'll pay off in the long term, given that building long-term loyalty remains our top priority.

As we look ahead, we'll continue to do all we can to support our guests, providing them great value, an unbeatable selection of necessities and affordable luxuries and a shopping experience that sparks a smile and provides a temporary escape. The second quarter offers many opportunities for our team to help all families discover the joy of everyday life. And this summer's assortment features some of our most inclusive offerings yet.

First, in May, we are celebrating Asian American and Pacific Islander Heritage Month by highlighting Asian founders and creators, amplifying their voices with stories of how their unique cultures influence the creation of their products and businesses. With June right around the corner, we're excited to honor our LGBTQ+ community as we celebrate Pride Month. This uplifting and always relevant assortment offers bold product, inclusive marketing and everyday affirmation that authentically represents and celebrates community and culture. And of course, we just finished celebrating mom in May and have plenty of options to honor dads in June, along with many other opportunities to celebrate the joys of summer.

And speaking of joy, we're ecstatic about our recently announced expanded partnership with actress, author and social media phenomenon, Tabitha Brown, a beacon of positivity, inspiration and joy. Having collaborated with her on social media for years, we're excited to grow our partnership with Tabitha and feature 4 limited time-only collections set to launch over the next year, starting with an exclusive apparel and accessories line of more than 75 items this June that are sure to lift both style and spirit.

Before I pass things over to John, I want to thank our teams across our stores, distribution centers and headquarters locations all around the globe for their unwavering leadership and service to our guests and to each other. Without them, we would not be able to continue growing our business and serving our guests each and every day. Despite the volatility and rapid shifts in consumer demand, the macro environment and the global supply chain, our business remains strong, and we're confident in both our long-term strategy and our team's ability to navigate through this dynamic period.

We continue to focus on serving our guests in all that we do through our ability to provide relevance and joy in our assortment, the delivery of a positive one-of-a-kind inspiring guest experience and by building lasting, deepened affinity over time. We're lucky to have the best team in retail to make all of this come to life, and I look forward to all we will do together in the second quarter and beyond.

With that, I'll pass things over to John.

John J. Mulligan - *Target Corporation - Executive VP & COO* temporary storage capacity instead. And as Christina mentioned, rather than carrying items beyond their relevant season, her team made the tougher call and marked items down to clear them and keep our presentations fresh and inspiring.

While these were difficult decisions in the moment, we have no doubt they are the right long-term choices. However, they involved higher costs, resulting directly from the actions we chose to take and indirectly in terms of team member hours required to manage the extra volume. As Michael will discuss in more detail, while we don't expect these conditions to persist over time, they'll continue to impact our Q2 results before conditions begin improving later in the year.

More specifically, as we move beyond the front half of the year, we'll have had enough time to adjust inventory levels and receipt volumes to match the pace of sales, even in longer lead time categories. In addition, capacity in our supply chain will continue to build throughout the year as the new buildings we opened last fall continue to ramp up their productivity while we work to open additional buildings in the years ahead.

Beyond this ongoing work to expand the upstream supply chain, we continue to add downstream capacity in our sortation centers, which increase speed and reduced the unit cost of last mile delivery. Following our successful test of the concept in the Minneapolis market, we now have 6 sortation centers open and operating, with plans to open 3 more by the end of the year.

While the newly opened centers are still ramping up their capacity, in total, our 6 sortation centers handled 4.5 million packages in Q1, a number that's expected to grow significantly throughout the year. Each of these facilities already has volume flowing to our national carrier partners, including the ability to sort USPS packages individually by post office, creating a high-speed, low-cost delivery option in the metro areas surrounding each center.

In addition, we've begun rolling out our lowest cost delivery option, Target last-mile delivery, at our Atlanta sortation center and will soon expand that capability to the other 4 recently opened facilities. For this capability, we collaborate with our partners at Shipt, whose drivers sign up to deliver batches of orders that have been sorted hyperlocally down to the neighborhood level. This provides a fast, efficient, reliable and low-cost delivery option for our business, benefiting both our guests and the P&L. While we're excited about the results these centers are already delivering, this initiative is in the very early stages, and we have plans to continue opening centers and ramping up this new capability for years to come.

Beyond investments in the supply chain, we're also excited about the investments we're making in our stores, allowing them to become more productive, more fun and more inspiring to shop. For the year, we have plans to complete remodel projects in nearly 400 stores. And through the first quarter, we had already mobilized on just under half of those projects, keeping us on pace for the year. Just under 200 of this year's projects

Similar to the pressures we've been experiencing in our merchandise costs, our construction team has been dealing with volatility in the price of raw materials and labor in our new store and remodel projects. And like our merchandising partners, they've done a great job working around those costs and constraints, keeping projects on track while maintaining their focus on delivering a great guest experience.

So as I get ready to hand the call over to Michael, I want to pause and thank the entire operations team, from our stores, to supply chain, and our properties team to our partners at Shipt. The growth we've seen in our business and the expansion of our capabilities over the last 2 years has been both energizing and inspiring, but it certainly hasn't been easy for our team. They've handled growth well beyond what any of us would have expected 2 years ago, even as they worked around new challenges and unexpected obstacles.

One of the joys of the last year has been the ability for me to once again get out in the field, traveling to our stores and distribution facilities around the country, and experiencing firsthand the energy and positive attitude our team brings to work. They're united in their support of our guests, for our brand and for each other. Every day, they bring our company purpose to life. And every day, I am inspired by what they accomplish.

Now I'll turn the call over to Michael.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Thanks, John. I want to start my remarks today where John just ended and add my thanks to our entire team. Even with all of the challenges they've been facing, they refused to get distracted. Instead, they maintained their focus on our company purpose, to help all families discover the joy of everyday life. Our team shows up to work every day with a passion for serving all families and for serving each other.

As John mentioned, it's been a joy in recent months to be able to travel once again, meet with teams across the country and hear what's on their minds. And the optimism and energy of our team is infectious. I can feel that whenever I meet with the team, and obviously, our guests can feel it when they shop, which explains why our first quarter traffic has increased more than 20% over the last 2 years.

In the first quarter, our comp increase of 3.3% was supported by a traffic increase of 3.9%, partially offset by a small decrease in average ticket. Among our fulfillment channels, store sales grew slightly faster than digital in the quarter. Within digital, same-day services continue to drive our growth, and accounted for well over half of our first quarter digital sales; within our same-day services, Drive-Up accounts for the majority of sales, and it continues to grow the fastest. In fact, of the $3.3 billion in first quarter digital sales that we've added since 2019, Drive-Up accounts for nearly half of that growth.

On the first quarter gross margin line, we saw a rate decline of about 4.3 percentage points compared with last year. Among the causal factors, merchandising actions drove about 3 percentage points of the decline, driven by the combined impact of impairments, markdowns and other actions taken to rightsize our inventory position in categories that were too heavy, along with the impact of higher freight costs.

Among other drivers, higher supply chain costs accounted for a little over one percentage point of this year's rate decline, reflecting the impact of higher headcount and compensation in our distribution centers. Sales mix accounted for the remainder of the decline, worth about 10 basis points of pressure.

On the SG&A expense line, we benefited from fixed cost leverage and strong expense control throughout the quarter, which helped to offset the impact of inflation-driven cost increases in multiple expense lines. Within compensation, the continued impact of team investments was offset by lower incentive compensation compared with last year.

On the D&A expense line, we saw about 10 basis points of benefit in Q1, reflecting leverage on strong revenue growth. Altogether, our first quarter operating margin rate of 5.3% was about 4.5 percentage points lower than last year. While we expected this year's rate would be well below last year, our actual performance in the quarter was far lower than we anticipated, driven by the unexpectedly high costs we incurred on the gross margin line.

Turning now to capital deployment, I'll start where I always do, by reiterating our priorities, which have remained consistent for decades. First, we fully invest in our business and projects that support our strategic and financial criteria. Second, we support the dividend and look to build on our 50-year record of annual dividend growth. And finally, we return any remaining excess cash within the limits of our middle A credit ratings through share repurchases over time.

Beginning with the top priority, first quarter CapEx was just under $1 billion, keeping us on track to spend $4 billion to $5 billion for the year. While our teams continue to face multiple challenges, including supply shortages, shipping delays and permitting and inspection delays in some communities, they're doing a great job of working around these obstacles and keeping projects moving.

In addition, as John mentioned, unexpected inflationary pressures are affecting some of our capital projects, which will impact our total spending for the year. As I mentioned at our recent Financial Community Meeting, we're excited to make progress on our capital projects, which continue to move our business forward. And today, given the team's efforts to advance this year's projects, I believe we'll reach the high end of our $4 billion to $5 billion plan for the year.

But let me be clear about a couple of things. First, we are not happy with our current profit performance, and our team is laser-focused on helping to quickly restore our business performance to where it should be operating over time. That said, nothing that is happening today has changed our long-run expectations regarding the ability of our business to grow nor has it changed our view of the long-run potential of our business to deliver an operating margin rate of 8% or higher over time.

And today, as we navigate these near-term challenges, we are fortunate to have an incredibly healthy underlying business, one that can stand up to the significant headwinds we're facing and come out stronger on the other side. We have ample financial capacity to continue making long-term investments, in new stores, remodels, supply chain, and of course, in our team, all with a focus on serving and delighting our guests, driving deeper loyalty, and building on the top line growth we've seen in recent years and which continues today.

After all, even after a significant pullback from last year, first quarter earnings per share were more than 40% higher than in the first quarter of 2019 prior to the beginning of the pandemic. While that doesn't mean we're where we want to be operating today, it shows we have a strong foundation from which we can recover from today's challenging environment and restore our operating margins to 8% or higher over time, consistent with

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

I had 2 questions. So the first is, I'm just curious on your philosophy with respect to the fact that you had an Analyst Day on March 1 and had some insight into the trends that you were seeing. So can you maybe just update us on your philosophy on maybe giving a pre-announcement? Because, I mean, I think it did come up with Walmart yesterday as well. So you're in good camp on things changing very quickly with the consumer and with the cost side of the equation. So that's my first question. And then I just had a quick follow-up.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Karen, as we stand in front of you and others in March, we did not anticipate the rapid shifts we've seen over the last 60 days. We did not anticipate that transportation and freight costs would soar the way they have as fuel prices have risen to all-time highs. While we were certainly anticipating the impact of overlapping stimulus and consumer and guest returning to more normal activities, we did not expect to see the dramatic shift in many categories that we've talked about, the shift from categories like TVs to luggage, from small appliances to toys, and guests celebrating, being out with friends. That certainly impacted our business in the first quarter, and we expect that to continue in Q2. And we certainly didn't anticipate the impact that would have on our supply chain costs.

So things changed rapidly after we stood on stage in New York. We own that. It's what we're adjusting as we build our plans for the balance of the year. And we're committed to improving our operating performance over the second, third and fourth quarter and getting ourselves back on track for a more normalized environment in 2023.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then my second question is, obviously, we -- you have the higher sales productivity. That should be sustainable. So that should also translate into a sustainably higher operating margin structure, right, longer term, which is what you guided to. But that's the biggest question, obviously, that investors are asking today given what you just reported and what your guide reflects. So maybe if you could just give a little more color on why -- and the puts -- not the puts and takes, but the -- I guess, a stair step function to get back to your algorithm on the 8% operating margin.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

You hit the nail on the head in your question. The sustainability of scale benefits, especially as you've seen in SG&A leverage, that should be sticky, and we would expect it to be sticky. We've got some work to do on the margin line, and Q1 and Q2 outlook reflects that. But as we work through some of that inventory liability, as we let the levers we have to pull react to the current environment, to Brian's note, some of that snuck up on us in the first quarter, and we'll work through some of that over time. But we continue to have a lot of confidence that the long-term run rate of profitability for the business is in the 8% range, give or take. And it's our work to do the hard work to get back to that path.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Karen, just finished my -- one of the things that hasn't changed since we were together in March and gives us great confidence as we go forward is the relationship we have with the guest. While we've certainly seen significant cost pressures since the start of this quarter, the guest continues to reward us with footsteps in our stores and growing traffic, more visits to our site. We feel very good about putting over 3% comps on top of 23% last year. The fact that traffic grew by almost 4% on top of 17% last year gives us great confidence that while we're facing some operating challenges, we've made that invisible for the guests. And we protected the guest experience as they shop our stores and visit our site.

That gives us tremendous confidence that, that guest will continue to reward us, particularly as we provide great value and affordability during a time of need. So that continues to give us confidence, not in just this year, but in our out-year forecast.

Operator

The next question is from Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I wondered if you could help us understand a little bit more the slightly down average ticket during the quarter. Just given the level of inflation that we did see on the cost side and the prices that you may have passed through, are there any pricing actions here that can help offset some of these margin pressures further? Or can we expect higher prices than what we saw in Q1?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Sure. Thanks for the question, Kate. As we shared in remarks, the headline story for us is traffic growth. But if you -- as you decompose ticket, we did see a low single digit increase in ASPs, offset by a reduction in units per basket. As you've heard us probably say many times before, a lot goes into that ASP number. It's a little bit product mix, it's a little bit how much inflation is in the environment. And so a little trickier to decompose there, but that's just a little more color on what we saw in the basket.

We continue to be laser-focused on that traffic number. That's a great indicator for us of how -- what we're doing is resonating with the guests and to continue growing the top line by growing and deepening engagement with Target. That positions us well for the back part of the year, and that positions us to have the top line that we want as we rightsize the profit picture over time.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. And with regards to the operating margin guidance, and granted that I know you've kind of anchored it to the 5.8% and it being a wide range around that, is there any way you can dimensionalize how much lower do you think the margin can go or what the bottom of that range might be in your scenario analysis?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Yes. There's -- I mean, obviously, there's a lot of factors at play as we look at Q2 and the balance of the year. I think we used the language, we wouldn't expect it to be normal for the balance of this year. So our best view of those factors is in our Q2 guide of 5.3%, plus or minus, a wide range around that, and in our guide of 6% for the year.

Operator

The next question is from Scott Mushkin with R5 Capital.

Scott Andrew Mushkin - *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

So I guess the first thing I wanted to talk about a little bit is the inflation that consumers are seeing, particularly in those everyday items like utilities, food. How do you think the consumer is going to react over time? I know people talk about peak inflation, but from our vantage, it probably doesn't occur till maybe late summer. And how concerned are you that consumer demand holds up?

Brian C. Cornell - *Target Corporation -*

are up to start the second quarter. They're shopping multiple categories. And they're appreciating both the newness that we're providing, the seasonal relevance in our stores and in our assortment and the value we're providing. And we think that's critically important to our success over time.

So I'd love to give you an outlook on what's going to happen with the consumer and how do they respond to ongoing inflationary pressure. But I can tell you, the traffic we saw in our stores and the visits in our site in the first quarter, the way that's continuing in May 1 tells us that we've built extraordinary trust over the last couple of years. And we're continuing to be rewarded by a guest and the consumer as we work into the second quarter.

Scott Andrew Mushkin - *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

So as a follow-up to that, Brian. I guess when you guys look at your business and the volatility that we're seeing and the potential the consumer could weaken, I know you're not seeing it yet, when do you start getting more aggressive on your costs to take action to maybe bring things down if you see things? How quickly can you move? And when do you start to do that?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Well, Scott, we work each and every day to make sure we're finding efficiency throughout our operation. And certainly, coming out of the first quarter, we are doubling down on finding operating efficiencies and greater effectiveness in the organization. We know we've got to be really agile. And I think it's been one of our strengths over the last few years and certainly pronounced during the pandemic, that we have to be able to respond to a changing environment, whether it's the consumer changes, the economic changes around us.

And we'll continue to make sure we're focusing on agility, maintaining that relationship with the guests, growing market share even in a volatile environment and making sure we just deepen that relationship with our guests, which we think, long term, along with investing in our team, is the most successful way for us to create value for our shareholders.

Operator

The next question is from Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman - *Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst*

I think earlier in the scripted remarks, Christina had made a comment that consumers seem more positive about their finances. And I was just curious if you could share a little more color behind that, like what you're seeing or hearing in your survey work.

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Yes. I'd be happy to, Joe. We have been -- the last couple of years, we have been highly engaged in trying to understand the consumer. We've been through a series of chapters of consumer behavior shifts almost every 2 months for 2-plus years, honestly. And what we're seeing is that the consumer has taken control of their environment more so because the macro environment feels out of control.

And so despite the fact that they might have worries about inflation, they're in charge. And they're making decisions based on their preferences and what they value, which means going back out, if that's what they want to do, traveling because they've missed it, seeing their friends and family again. And it's about moderating those behavior shifts and accommodating our assortment and our messaging and our relevance based on how those shifts happen. And so it's really important to stay close to the consumer and not expect that past behavior as an indicator of the future.

Joseph Isaac Feldman - *Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst*

Got it. And then just a follow-up again on the gross margin pressure you guys are seeing. Should we assume things gradually improve as the year progresses? Because presumably, you'll be lapping some of that pressure from last year. Prior to this quarter, I mean, historically, you guys have always had a pretty steady gross margin on an annual basis anyway, around 28%. And so is there any reason to think we won't kind of naturally come right back to that as we cycle through these pressures?

for the near term here, you should expect kind of that new normal of sales growth to inventory growth to include some working capital investments as we land some of that product sooner to make sure we've got it for the guest.

And so those are the 3 big factors that we're watching. Obviously, the first of those factors, we'll work to make some progress on here in the second quarter to get us in line with what we expect sales trends to look like for the back part of the year. But old normal might not be the current run rate in the near term as we work to secure product, land it early and avoid some of the disruptions that have caused out of stocks over the last year.

John J. Mulligan - *Target Corporation - Executive VP & COO*

Yes. And just to pile on a little bit, I think all things being equal, we would say, given how much larger we are, we turn -- everything would turn faster. But I think Michael hit on it, I don't think 2019 is a reasonable compare. Given the, frankly, slowness in the supply chain, lead times are longer. And that means we carry more inventory at any given time because of those lead times.

And so we aren't where we want to be right now, for sure. Like Michael said, we're lumpy, and we need to work through that, we will. But in general, the increase in turns that we would naturally see being a larger business with more sales is going to be offset by lead times that have increased virtually across every part of the supply chain.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Operator, we have time for one more question today.

Operator

Our last question comes from Robbie Ohmes with Bank of America.

Robert Frederick Ohmes

Robert Frederick Ohmes - *BofA Securities, Research Division - MD & Senior US Consumer Analyst*

And then just quickly, on the traffic, which is -- was really healthy against -- I think it was plus 17 last year, any sense of new customers versus frequency?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

So it's always a little bit of a mix of both when we're doing our job, right? But the thing that we come back to when it comes to driving traffic is just driving deeper and deeper engagement. And you've heard us talk in the past with over 100 million Target Circle guests. That's just one more way that we can continue to drive preference in a personalized way and build deeper and deeper engagement with Target over time.

And you can see that coming through in the traffic results we see, not just in this quarter, but over the past couple of years. And that gives us a lot