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OVERVIEW:

Company Summary

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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 22, 2024.

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 2024 earnings conference call.

On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Christina Hennington, Chief Growth Officer; and Michael Fiddelke, Chief Operating Officer and Chief Financial Officer. In a few moments, Brian, Christina and Michael will provide their insights on our first quarter performance, along with our outlook and priorities for the second quarter and remainder of the year. Following their 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, including those described in this morning's earnings press release and 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 first quarter and his priorities for the second quarter and beyond. Brian?

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

Thanks, John, and good morning, everyone.

At our Financial Committee meeting in March, we outlined our long-term vision for profitable growth and a broad range of investments we're making to support those ambitions. We talked about our goal to open more than 300 new stores over the next decade as we continue investing in the vast majority of our existing stores. We discussed the supply chain investments we're making to modernize how we distribute merchandise, including the rollout of additional sortation centers to increase the speed and efficiency of our last-mile delivery.

We highlighted investments in technology, including AI and machine learning, to make it easier and more reliable for our team to serve guests in every channel. We previewed the relaunch of our loyalty ecosystem, making it simpler and easier for us to deliver even more value to our guests. We outlined changes to the digital experience and our focus on bringing the joy of discovery to the digital channel, just like we've done in our stores for years.

We highlighted the value of Roundel, our advertising business, which helps us deepen the connection between Target, our guests and our vendors. Roundel is already making a meaningful contribution to our performance, and it's the fastest-growing part of our business.

We talked about the value of Target's unique multi-category assortment, including the launch of new owned brands like Figmint and dealworthy, and our work to widen the footprint of national brand partnerships like Ulta Beauty. And we discussed our commitment to making continued investments in our team, in their pay, benefits, training and more, because we know when we take care of our team, they can focus on taking care of our guests.

Also in March, we provided our financial guidance for 2024, a year in which we expect Target to get back to growth and build on the enormous gains in guest engagement and top line sales we've seen over the last 5 years. And today, with the first quarter behind us, I'm happy to report we're firmly on track to deliver on that guidance. More specifically, our first quarter comp sales were just above the midpoint of our guidance range, and our Q1 EPS was near the upper end of our expectations.

And I'll quickly note, while we're not yet satisfied with our current top line performance and we're far short to where we expect to operate over time, we've seen a sustained improvement in multiple business drivers over the last several quarters. This reinforces our confidence that we're moving in the right direction, and we're on track to deliver on our longer-term vision.

As we continue to monitor the external environment, our view of the U.S. consumer remains the same, as we shared 3 months ago. More specifically, U.S. consumers continue to exhibit a high degree of resilience in the face of multiple challenges, including a rapid rise in prices and interest rates over the last few years.

In addition, business trends continue to reflect a normalization in spending patterns that first emerged more than 2 years ago, a pattern where consumers are remixing their spending back into services and entertainment outside of their homes after curtailing those activities during the pandemic. This normalization, combined with the cumulative impact of higher prices on consumer budgets, is resulting in continued soft trends in discretionary categories, most notably in Home and Hardlines.

And today, even as price levels remain high, inflation rates have moderated significantly over the last few quarters. And we've seen a meaningful improvement in discretionary trends, most notably in Apparel, where our performance improved by approximately 4 percentage points in Q1 when compared with last year's fourth quarter. This gives us some optimism that we could see a better balance of spending between discretionary and frequency categories in the years ahead.

However, given that we're facing continued uncertainty in the near term, our team remains focused on operational excellence and the agility to respond quickly to changes in the environment. In addition, we're focused on delivering newness to our guests and leaning into seasonal moments, both of which have long served as hallmarks of our brand.

Among the highlights in Q1, we were really pleased with the response to our limited-time partnership with the iconic designer, Diane von Furstenberg; and the assortment of pickleball equipment and apparel we offered in partnership with the athletic brand, Prince. Of course, beyond newness and seasons, we continue to focus on delivering unbeatable value to our guests. While our team is always committed to value, it's particularly important in today's environment as consumers look for ways they can stretch their budgets in the face of suddenly high prices.

To help our guests in the face of these pressures, this week, we announced that we've made price cuts on 1,500 frequently shopped items in many markets, and we're planning additional price cuts on 1,000 more items this summer. These cuts are focused on everyday items in our Food and Essential categories and are designed to help our guests make the most of their budgets. Collectively, they'll save our guests millions of dollars this summer.

But low prices are only one of the many ways we deliver value. Another way is through our Target Circle loyalty program, which we relaunched in April. At well over 100 million members, Target Circle is already one of the largest loyalty programs in the United States. And we've redesigned the program to deliver even more value while making it easier to use and understand.

More specifically, we integrated our credit and debit card programs along with same-day delivery capabilities under a single umbrella, allowing our guests to choose from a range of services and rewards based on their needs and preferences. Christina will provide more detail in a few minutes, but we are really pleased with the consumer response we've seen so far. Most notably, we added more than 1 million new members to Target Circle in the quarter, and we're committed to making sustained investment in this program over the next few years.

I want to pause and thank our team for making this relaunch a success. It required a remarkable degree of collaboration and communication across a huge swath of our team, including marketing, stores, digital, financial services, merchandising, technology and finance teams.

In addition to value, our team is focused on convenience and reliability, including through the digital channel where trends have improved meaningfully over the last few quarters. In the first quarter, we saw an increase in digital sales for the first time in more than a year. This growth was driven by our same-day services, Drive Up, in-store pickup and same-day delivery, which has been rapidly embraced by our guests in recent years.

In the first quarter, our same-day services saw high single-digit growth over last year, led by Drive Up, which grew in the low teens. This builds on the explosive growth of Drive Up that occurred during the pandemic, which was followed by double-digit increases in both 2022 and 2023. All together and more than $2 billion in Q1, Drive Up sales were more than 30x larger than we saw in the first quarter of 2019.

I want to pause and highlight the outstanding efforts of our operations teams to enhance the guest experience. As Michael will cover in a few minutes, their focus on retail fundamentals is delivering multiple benefits, ranging from better in-stocks to rising guest satisfaction. And of course, our results continue to highlight the benefit of our stores and sub-model, which offers speed, reliability and efficiency regardless of how our guests choose to shop. In the first quarter, our stores fulfilled nearly 98% of our total sales as we relied on our store assets, inventory and team to support every one of them in services we provide.

So now as I get ready to turn the call over to Christina, I want to pause and take note of how our businesses evolved over time, providing perspective that allows us to look beyond the volatility we've seen in recent years. In the first quarter of 2024, our business generated over $24.5 billion in revenue. That represents growth of just under $7 billion or 39% compared with the first quarter of 2019, the year before the pandemic began.

We've also seen healthy growth on the bottom line where our business delivered EPS of $2.03 in Q1, which is $0.50 or 33% higher than in 2019. While that pace of bottom line growth is somewhat slower than we've seen on the top line and below what we'd expect to see over time, it reflects some unique profit rate pressures that we faced during the period, a portion of which we expect to offset over the next several years.

As we look ahead to the remainder of 2024, our team is focused on getting back to top line growth. We expect that will begin in the second quarter as we build on the remarkable gains we've seen over time. Like the U.S. consumer, our team has shown remarkable resilience during an extended period of exceptional volatility. I'm incredibly proud and appreciative of the passion they demonstrate for our guests and for our brand and their strong desire to win in the marketplace. Our team has long been the key to Target's success, and they are the #1 reason I remain confident in our ability to grow profitably in the years ahead.

With that, I'll turn the call over to Christina.

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

Thanks, Brian, and good morning, everyone. As Brian mentioned, while we are pleased that our first quarter results came in largely as expected, we won't be satisfied until we start growing again, which is our expectation beginning with the second quarter.

Before I share the strategy and plans that we expect to fuel this growth in Q2 and beyond, I want to spend a bit of time reinforcing what Brian shared regarding our views of the U.S. consumer and economy as well as providing some additional color on our first quarter results.

Our view on the consumer remains largely consistent with our view 3 months ago. Consumers remain surprisingly resilient despite a challenging backdrop of significantly elevated prices compared to just a few years ago. And even as inflation moderates and we see sequential improvement in discretionary category trends, higher interest rates, uncertainty around the future of the economy, continued social and political divisiveness and the upcoming election cycle have consumers concerned about what lies ahead. In fact, consumer confidence took a meaningful dip in April despite a strong job market and normalizing inflation.

And beyond the psychological toll of the current environment, the sustained level of elevated prices has had a meaningful impact on budgets and savings for many families. Currently, 1 in 3 Americans has maxed out or is nearing the limit on at least one of their credit cards. For these reasons and more, we remain cautious in our near-term growth outlook. Notably, we expect discretionary trends will continue to remain pressured in the short term, but to normalize over time.

Turning to our first quarter results, comparable sales were down 3.7%, driven largely by continued softness in Home and Hardlines categories and softening trends in frequency categories, with lower unit volume and less benefit from price as compared to a year ago. Amidst the pressure, Beauty continues to be a standout category, delivering growth in the low single digits in the quarter. This growth was led by continued strength in Ulta Beauty at Target as well as strong performance in personal care and skincare categories.

Apparel, while down low single digits for the quarter, saw a nearly 4 percentage point improvement in comparable sales from Q4. The performance in young contemporary categories delivered comps in the high single-digit to low double-digit range, with guests responding favorably to our new spring fashion sets, new offerings within All in Motion owned brands and our limited-time partnership with Diane von Furstenberg. In fact, our collaboration with DVF was one of the strongest limited-time partnerships we've had in years, driving millions of unique visits to our site daily during launch week and increasing basket size by around 15% on average. This partnership demonstrates our continued ability to bring fashion to all with incredible style and value.

Frequency categories saw comparable sales declines in the low single digits. Seasonal moments continue to outperform overall trends in frequency categories, particularly in Food & Beverage. And we saw strong performance in both Valentine's Day and Easter time frames. Sales in Home and Hardlines continue to be soft, though there were notable bright spots in both areas. In Home, the team has found ways to reduce costs in select Home categories, and we passed those savings along to guests. This has led to an acceleration in unit velocity in these categories.

In Hardlines, the entertainment category grew high single digits, reflecting notable strength from our exclusive offerings of Taylor Swift's latest album release, The Tortured Poets Department. With an exclusive-to-Target version of the album and 3 exclusive CD options, this was the strongest music preorder in our history, elevated by in-store events, including fun photo-ops for the most hardcore Swifties out there as well as the strong presence of our Taylor exclusive on her social channels.

In the Sporting Goods category, our exclusive-to-Target partnership with Prince delivered incredible sales momentum in all things pickleball. Beyond the quality and value of this line's equipment and gear, guests are loving the apparel offerings in the linell.

sales were the strongest in digital where first quarter comparable sales grew 1.4%. This was driven largely by continued growth in our same-day services as well as meaningful improvement in our Apparel business this quarter.

At our Financial Community Meeting in March, Cara and I shared details about changes we've made to our free-to-join loyalty program, Target Circle. And while it is still very early, we're encouraged by the reaction to our April relaunch of Target Circle. In Q1, we added more than 1 million new Target Circle members with strong engagement across all 3 levels of the platform. Our guests tell us they find the program easier to use, appreciate the clarity of the promotions offered and understand the value provided with their membership.

Social sentiment is up compared to a year ago, and mentions of Target Circle on social platforms increased by more than 500% versus last year, boosted by our immensely popular marketing campaign featuring Saturday Night Live alum, Kristen Wiig, revisiting her role as the Target Lady.

In addition to these memorable ads, guests are responding to the automatic application of Target Circle deals when they shop, giving them confidence that they are always getting the best deal on every Target run. Plus, strike-through pricing on Target.com and our app helps guests to clearly see the value they're receiving on those offers. We believe that pricing and value transparency will only become more important with time and that we can continue to grow awareness of the great value we offer across our assortment.

And while these enhancements drive performance in both our stores and digital channels, our most recent Target Circle Week in April drove outsized benefit to our digital performance. In fact, Q1 Target Circle Week drove the highest traffic to our website and app that we've seen in the past year outside of the Q4 holiday season. In addition, of the Target Circle members who shopped us during Target Circle Week, more than 3/4

Now let's turn our attention to our expectations for the second quarter. Summer is a time for family and friends, enjoying the beautiful outdoors and embracing adventures near and far. Q2 represents more than half of the year's spend on travel gear, and we have all the must-haves at great prices. From our only-at-Target Open Story owned brand of packing cubes, luggage and more to this summer's hottest books for the airplane and the beach, we have you covered no matter where and how you travel.

For the outdoor explorer, we are excited about our latest offerings in our owned brand, Embark, designed to celebrate family time in the great outdoors. Whether roughing it or glamping is your style, our assortment of tents, shelters, sleeping bags, camping chairs and more provide functionality, quality and value for those with a bit of wanderlust. And for those looking to celebrate at home, we have the must-haves for every occasion, from this summer's backyard pool parties to the greatest red, white and blue fashion to celebrate the Fourth of July in style.

As Brian mentioned earlier, value remains a top priority for consumers, and we recently reduced prices of more than 1,500 items across our assortment in many markets. In this summer, that list will grow to nearly 5,000 frequently shopped items, all at new lower prices. We also took a hard look at some of the most popular products from last year's summer assortment and reduced retail on a wide range of items, including season-locked deals like $1 pool noodles, $5 pool floats and $15 coolers. Plus, guests can save even more every day when they add personalized promotions available through Target Circle and 5% off every purchase with the Target Circle Card.

And of course, our only-at-Target owned-brand offerings deliver unmatched value for our guests, providing the perfect blend of great out-the-door pricing and incredible quality. And just in time for the neighborhood grill-out, we are bringing an abundance of new food offerings through our Good & Gather and Favorite Day owned brands. With more than 125 new items hitting shelves, plus exclusive flavors of hot national brands like bubly sparkling water and poppi, we expect to be included in a whole lot of barbecues this summer.

But summer always goes by quickly. And before we know it, guests will shift their focus from fun in the sun to preparing for a return to school and

For example, our top item in-stock measure focuses on the 1/3 of our assortment that turns most quickly, and we've seen impressive progress on this measure in recent quarters. More specifically, in Q1, the out-of-stock rate on this group of top items was less than half of what we're seeing overall, having improved by more than 4 percentage points when compared with a year ago.

We also had in-stock measures for our highest-volume stores and our small-format stores, both of which faced unique operating challenges. We also carefully measure in-stocks on our new store portfolio to ensure we make a strong first impression when we open in new neighborhoods. And we focus on our seasonal programs given the limited time window in which those assortments are offered. I'm happy to report that our team delivered improvements in each of these in-stock measures in Q1, enabling the overall improvement I highlighted earlier.

A critical factor supporting our reliability is the upstream supply chain where we've been seeing improvements as well. These include the new upstream distribution facilities we've opened over the last couple of years, which have been seeing improvements in their own reliability measures even as they continue to ramp their throughput.

We've also seen improvements through continued collaboration with our vendor partners where we're approaching pre-pandemic levels of reliability regarding inbound shipments arriving on time and in full. Given the importance of reliability to our guests, these measures should always remain a primary focus for our team. While we're proud of our recent progress, we know we have more room to improve, and we're committed to extending these gains in the quarters and years ahead.

Beyond product availability, our store teams continue to focus on retail fundamentals and operational excellence, ensuring we maintain best practices, particularly when it comes to the guest experience. One change we recently implemented was the decision to limit the number of items at self-checkout in our stores nationwide. This decision was made after rigorous testing last year and is intended to ensure our team can provide the best possible experience at both our full-service checkout lanes and also at self-checkout. As a result, when we made the recent change in our self-checkout lanes, we also engaged with our store teams across the country to ensure they are consistently providing adequate staffing at our full-service lanes.

With these recent changes and consistent with results from last year's test, we've seen a rapid rise in guest satisfaction scores relating to both wait times and the quality of interactions with our team at checkout. For both of these metrics, average scores in the first quarter were higher than a year ago, and we saw increases in these metrics between the beginning and the end of the quarter as well.

We're also pleased with the guest response to our most recently launched Drive Up services, namely the ability for guests to get their favorite Starbucks items with their Drive Up order and the option to make a return from the Drive Up lane. While we received high satisfaction scores across all of our same-day services, returns received the highest rating of any service we provide. And notably, the Net Promoter Score for Drive Up returns moved even higher in the first quarter, exceeding the sky-high score this service was receiving a year ago.

And finally, I want to highlight the entire team's effort to support the relaunch of Target Circle in early April with a special shout-out to our store team. From the installation of compelling new signing throughout every sales floor across the country and the focus on providing an engaging experience for guests who wanted to better understand our new program, our team did an outstanding job preparing for and supporting the launch of this new program. And while it's only one of many ways to measure its success, I'm really proud of our team's role in signing up more than 1 million new Target Circle members in the first quarter.

Now let me turn to our first quarter financial performance and our expectations for the remainder of the year. On the top line in Q1, total sales declined 3.2%, reflecting a 3.7% decline in comparable sales, partially offset by the impact of our new stores. Among the drivers of our comparable sales, traffic was down 1.9% in the first quarter. The average transaction was also down 1.9% as consumers continue to spend cautiously, particularly in discretionary categories.

Total revenue was down 3.1% in the quarter, reflecting a 3.9% increase in other revenue. Among the components of other revenue, a decline in credit card profit sharing was offset primarily by the benefit of more than 20% growth in our Roundel ad business, along with increases in several smaller items, including revenue from Target Plus.

Our first quarter gross margin rate was about 140 basis points higher than last year. About 1 percentage point of this improvement was in merchandising where we continue to benefit from favorable freight rates and other cost savings, which offset higher promotional markdown rate. Also in Q1, we saw about 20 basis points of rate improvement from category mix and 20 basis points of benefit from inventory shrink.

As I mentioned at our Financial Community Meeting in March, we've been encouraged to see a growing focus on retail theft at the federal, state and local levels, and we continue to take our own steps to reduce theft in our stores. Based on our recent physical inventory counts, we continue to believe that shrink rates are positioned to reach a plateau this year. And in Q1, the results of those inventory counts were favorable versus our expectations.

As a result, we now expect to see a full year gross margin rate benefit related to shrink, most notably in the second quarter. While this improvement will serve as only a small first step in offsetting the significant headwind we faced in recent years, we're encouraged to see this metric moving in the right direction.

On the SG&A line, we saw a rate increase of about 130 basis points in the first quarter, reflecting the deleveraging effect of a decline in sales, combined with the impact of multiple cost increases, including compensation and benefits for our team and higher marketing expense to support the launch of Target Circle.

On the D&A line, we saw a rate increase of about 20 basis points over last year, reflecting the deleveraging impact of lower sales, along with an increase in dollars driven by a number of recently completed capital projects. Altogether, we're pleased that our operating margin rate was up slightly from a year ago despite a decline in sales.

Our enterprise efficiency efforts played a key role in this outcome, resulting in savings throughout our P&L. These savings helped to offset continued investments in our team and pressure from year-over-year investments in promotions and marketing. While these efficiency efforts were broad-based, they included work within merchandising to implement changes in owned-brand sourcing and design, resulting in lower product costs and other savings.

They also included work that delivered productivity gains across our general merchandise and food distribution networks, improvements in middle-mile fill rates and changes within our last-mile delivery capability to optimize units per package and save on delivery costs. And while there's much more opportunity in front of us, the team is already making progress in reducing complexity on the apparel floor pad and the back rooms of our stores, reducing the cost of digital fulfillment while making our team more efficient overall.

As I mentioned earlier, we continue to feel really good about our inventory position, which was 7% lower than a year ago, even as we continue to benefit from the in-stock improvements I already covered. When we look back to the first quarter of 2019, total inventory has increased about 30% over those 5 years, while sales in the quarter just ended were about 39% higher than in 2019. Given that this growth in sales was largely driven by an increase in our sales per store, an increase in our inventory turns is something we'd expect to see and something that should be sustainable over time.

Now I want to turn to capital deployment and briefly reiterate our priorities, which have been consistent for several decades. First, we look to fully invest in our business and projects that meet our strategic and financial criteria. Second, we look to support our dividend and build on our decades-long record of annual dividend growth. And finally, we deploy excess cash to repurchase shares within the limits of our middle A credit ratings.

Regarding the first priority, first quarter CapEx was just under $700 million, and we remain on track to invest a total of $3 billion to $4 billion for the full year. Regarding the second priority, we paid dividends of $508 million in the first quarter, up about 2% from a year ago. Later this quarter, we plan to recommend that our Board approve a small increase in the quarterly dividend in support of our goal to build on our decades-long record of annual dividend increases and move toward a 40% payout ratio over time.

Regarding the third priority, we didn't repurchase any shares in the first quarter, consistent with the expectation I shared at our Financial Community Meeting. As I mentioned at that time, we focused on strengthening our balance sheet throughout 2023 and saw a rapid recovery in our debt

delivering stronger profitability over the last several quarters. These elements position us for continued progress over the remainder of the year and for profitable growth over time.

With that, we'll turn to Q&A. Now Michael, Christina and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

So my first question is, I guess, bigger picture on 2024. We talked about, I think, leaning into top line growth. Can you talk about the balance of margin and top line growth that you initially sought for '24? Are you finding that you're beginning to lean more in terms of driving the business, And on the SG&A line, as you've heard me say before, you'll see noise on there quarter-over-quarter. One of the things that was an investment in Q1 was investment behind the relaunch of Target Circle, for sure. But I feel really good about the way the team is managing costs throughout the business, and that's all factored into our guidance for the year.

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

Simeon, one other point on Target Circle, and I know I talked about this, we talked about this more broadly in March. While we're excited about the launch or the relaunch that took place in April, this is going to be an ongoing effort each and every week for multiple years as we look to build the base program and build greater guest engagement, expand the use of the Circle Card and dramatically build membership for Target Circle 360, our approach to same-day delivery.

So I think it's got to be really clear that while we're excited about the relaunch and the initial reaction, adding 1 million new members, this is going to be an ongoing commitment every week of the year as we continue to use Target Circle as a way to build greater engagement with guests.

Operator

Our next question is from Michael Lasser with UBS.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

How much of the price investment that Target announced this week is going to be funded by Target versus being funded by the vendor community? And is it right to think that now that shrink has turned the corner, Target is taking this favorable factor and reinvesting at least a portion of it in driving traffic-related items?

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

Michael, this is Christina. One of the things that we know for a fact and has been a priority for a very long time is the focus on both Expect More and Pay Less. In fact, that is our brand promise. So value, affordability and how we deliver that is always and has always been important. And as Brian shared in his prepared remarks, it is even more important during this time of 3 years of cumulative inflation in these categories. So our commitment to investing in price on behalf of our guests is to pass savings back along to them to accelerate traffic and unit growth over time.

Our partners know our playbook. They understand how we go to market, and they are terrific partners in bringing that experience to light, in bringing us great products, innovation and contributing to the value equation for Target. They see us do that in our own brands and they help us do that with their brand portfolio. So this is a long-term commitment on behalf of the guests and is consistent with the strategies we've outlined for quarters.

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

And Michael, maybe to touch on your question on shrink, if you step back and look at our total, we're managing all the levers of the P&L every quarter, every year. On shrink, we're pleased with the progress that we saw in the first quarter. As you heard us say to kick off the year, our hopes for the year were that shrink would flatten this year, and that would be an important first step on a journey to improving shrink over time.

And so far so good on that front. We're perhaps even a little ahead of where we hoped to be there. And that's step one to get to that plateauing place that we're on a good trajectory for this year. Over time, you can expect we work to make more progress on that line in the years to come.

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

Michael, we'll get out in front of some of the questions that might be on investors' minds regarding the price investments we announced earlier this week, and this is part of our ongoing focus on retail fundamentals. And you've heard us talk about this for a number quarters now. Michael talked about the great progress we're making on reliability and in-stocks. We want to make sure we continue to provide a great guest experience, leverage our proximity. And you see the way our guests continue to leverage services like Drive Up.

But affordability is an ongoing part of our playbook. It's embedded in our retail fundamentals. And you see that come to life in how we're merchandising our end caps where we use both our national and owned brands, including the launch of a new brand called dealworthy; the way we're leveraging Target Circle to make it even easier for our guests to get the best of Target every day.

So this is just an extension of our ongoing focus on affordability, which certainly, in this environment, we know value is critically important. And as we go into the summer season, and Christina talked about some of the great plans we have in place for the summer, we want to make sure America knows that Target is a great place to shop and we've got great value every time you engage, whether it's in-store or through our digital channels.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Okay. My quick follow-up is that the outside perception is that Target sales are healthy when it has promotions like Target Circle Week, but outside of those type of events, trends have been a lot softer. So, a, is that the case? And then, b, does that mean that Target has been losing consideration on everyday essentials, and so this price investment is obviously aimed at improving those periods where there are not events or holidays? And how quickly do you expect to see a response from that?

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

Michael, I'll answer your last portion of that question. We expect to see those trends turn around in the second quarter, and that will be a quarter where we return to growth. And we'll see that fueled by the investments we're making in great assortments, in value and in a great guest experience. So we won't be satisfied until we see positive comps in the second quarter and over the balance of the year.

Operator

Our next question comes from Rupesh Parikh with Oppenheimer.

Rupesh Dhinoj Parikh - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

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

And Rupesh, on the weather front, while we certainly see some volatile weather over the first quarter, that affects everyone in retail. And I feel really good about the way our store teams have responded, how our supply chain responds to some of the disruption we've seen. And I think we're well positioned to continue to maneuver through some of the volatile weather we're seeing across the country.

Rupesh Dhinoj Parikh - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. And then my follow-up question, just on the merchandising innovation front. So it sounds like your consumers are responding to newness in the box. Just curious how you're feeling about the level of newness innovation for balance of the year.

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

Yes, great question. Definitely, consumers are responding to newness. When they see innovation and they see that as an incredible value, that's what's motivating them to buy. And so our acceleration of percent of newness has just built quarter after quarter. And you saw that really materialize in the apparel improvements in the last quarter. That was based on the backs of ready-to-wear, our perhaps most fashion-forward part of our entire assortment, our performance business, our young contemporary business, those are big owned brands that we control, design and build; All in Motion, Wild Fable, A New Day, et cetera, punctuated by a great partnership with Diane von Furstenberg.

And so that's a great example. We're doing that in every part of the portfolio. And Q2 is where we get really excited about the opportunity around summer. Summer is a place where we can take advantage of the breadth of the portfolio, like sporting goods, of course, apparel, dresses, shorts, et cetera. But this year, we've added a new twist with our frequency businesses, always standing for sun care, but this year, a big snacking and food destination for summer as well. 125 new items in Favorite Day and Good & Gather to beef up the excitement and relevance during this time. So lots of focus on newness. And also looking for that from our partners, the more innovation, the more that they invest behind newness, the better it is for us.

Operator

Our next question is from Corey Tarlowe with Jefferies.

Corey Tarlowe - *Jefferies LLC, Research Division - Equity Analyst*

I was wondering if you could talk a little bit more about what you're seeing in your private-label business. With the 2 new launches that you've made recently and the existing very impressive portfolio that you have, it would be great to hear a little bit more color about the momentum that you've seen in that business as you put more investments behind this segment.

A. Christina Hennington

What I'll tell you is where we've made surgical investments in supporting price points that were missing from our assortment, the guest is responding right away. Tech accessories, for instance, we didn't have the right value offering in basic cables, HDMI, phone cases and things like that. When we introduced the right price points in dealworthy, the guest noticed immediately, and that drove unit and traffic acceleration in those categories. And that's what we're doing business by business.

In up&up specifically, we've reformulated 40% of the products to add quality to the products. Our star ratings and our reviews on Target.com have accelerated meaningfully as the guests have taken notice. So we're excited what that means for the future as that builds throughout the year.

Corey Tarlowe - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then just as a follow-up, one of the things that's also clear with Target is that strong inventory management helps to unlock better margins. So could you talk a little bit more about your current inventory positioning and how you expect that to unfold throughout the rest of the year, especially as it relates to margins?

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

Yes. Thanks for the question, Corey. And you're spot on, when inventories are in line, we run more efficiently across our entire system. And that's certainly been the case in the last few quarters and is the case now. We feel really good about our inventory position as we step into Q2 here with inventories down 7% at the enterprise level. But most importantly, that efficiency on inventory is coming with a stronger in-stock position. We're always solving for both. And that one-two punch of lower inventories, the higher in-stocks is the outcome that we want and it's the outcome we're

Operator

Our final question comes from Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

We wanted to ask a little bit about the other revenue streams. If you can provide any more detail about the margin contribution from Roundel or Target Plus or maybe your distribution of Cat & Jack at Hudson's Bay? And did you see any increase in conversion in Shipt subscriptions as a result of the launch of Target 360?

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

Kate, a great way for us to wrap up our call today. Michael, do you want to cover some of those topics?

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

Sure. Those are all good ones to touch on. I'll do my best and maybe pair off with Christina on a few of those. We continue to be thrilled with the strength we see in our Roundel ad business. It grew another 20% plus this quarter, and I think that speaks to the value that we're providing guests and some of our partners with that offering. That's been a sustained source of growth, and we would expect that to continue to be a source of growth going forward.

With Target Plus, you heard us talk about some of the expansion we continue to do there, and that's certainly a contributor to growth within that other revenue line on the quarter as well. So we feel good about how those parts of the business continue to add to both to the top line and to the bottom line.

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

Yes, not a lot to offer besides the fact that you can see the expansion in margin over time, and that comes from creating value with our partners through Roundel. And it isn't just about shifting dollars, it's about accessing new dollars because they see the growth that comes with it and our ability to convert that into sales.

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