



NOVEMBER 15, 2017 / 1:00PM, TGT - Q3 2017 Target Corp Earnings Call

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PRESENTATION

Operator

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

As a reminder, this conference is being recorded, Wednesday, November 15, 2017.

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 - Vice President of IR*

Good morning, everyone, and thank you for joining us on our third quarter 2017 earnings conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; John Mulligan, Chief Operating Officer; Mark Tritton, Chief Merchandising Officer; and Cathy Smith, Chief Financial Officer.

In a few moments, Brian, John, Mark and Cathy will provide their perspective on Target's third quarter performance and our plans and priorities going forward. Following their remarks, we'll open the phone lines for a question-and-answer session.

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

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 SEC filings.

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 in our third quarter performance and our priorities going forward. Brian?

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

Thanks, John, and good morning, everyone. We are really pleased with Target's third quarter performance, which reflected a continuation of the positive trends that emerged in the second quarter. We saw continued growth in both our comparable traffic and comparable sales in the face of more difficult prior year comparisons on both measures.

Digital sales grew 24%, on top of 26% a year ago. And we announced new innovative partnerships with both Google and Pinterest, that will continue to expand the digital reach of our brand. We saw a meaningful increase in the percent of our sales at regular price, reflecting the benefit of our work to communicate value more clearly and provide our guests confidence that Target assortment is priced right daily.

We rolled out 4 new owned brands across our Home and Apparel categories, all of which are off to a great start. And we generated an unprecedented amount of buzz when we announced an amazing new designer partnership with Chip and Joanna Gaines called Hearth and Hand with Magnolia, which launched last week.

We also remodeled 37 stores in the quarter, in support of our plan to transform 110 stores this year. And we opened 12 new stores in a single week in October. These stores are located in a diverse array of neighborhoods across the country, ranging from our new Herald Square location in New York City all the way to our newest location in Honolulu.

Beyond the direct financial returns we're seeing on these investments, our guests continue to confirm for us, both through their feedback and their shopping decisions that our efforts are paying off.

And finally, this quarter, we made some meaningful announcements regarding our team. In early September, we announced our intent to hire an additional 100,000 team members for the peak holiday season, up from 70,000 a year ago. And later that month, we announced we would increase our minimum wage nationally to \$11 an hour in October in support of a commitment to raise our national minimum to \$15 an hour by the end of 2020. These investments reflect the value of our team and our commitment to supporting them as they provide outstanding service to our guests every day.

The strength of our team is never more evident than in times of need, and unfortunately, we faced several natural disasters in the quarter from hurricanes in Texas and Florida to wildfires in California. In the face of these challenges, there are countless stories of our team coming together to support each other and their communities in the face of heartbreaking devastation. We at Target are so proud of our team for their resilience and commitment to our guests.

With 3 quarters of the year behind us, I'm pleased that we are either on track or ahead in delivering all of our goals for the year, and supported by strong execution by our team, our financial results this year have been meaningfully ahead of our expectations. A key factor in delivering our goals is the ability of our team to move faster than ever before, and nowhere is that speed more evident than in our supply chain, where we are rapidly testing and rolling out new fulfillment options for our guests.

Already this year, we've taken Target Restock from only a concept to being fully operational in 11 key markets throughout the country. And we continue to expand a list of eligible items while extending the order deadline for next-day delivery. We've tested and rolled out same-day delivery in 4 locations in New York City, supported by our recent acquisition of Grand Junction, and we've rapidly tested and rolled out a new Drive Up service in 50 locations in the Twin Cities, where we're receiving positive feedback from our guests.

With each of these capabilities, the team is rapidly learning and iterating as we expand our reach, and we have plans to further build out all of these fulfillment options in 2018. We've taken the same approach to our ship-from-store capabilities, which we first rolled out to approximately 140 stores only a few years ago.

As we enter the holiday season this year, the count of ship-from-store locations has grown more than tenfold, and it's now in more than 1,400 locations across the country. You'll note that for each of these fulfillment options, our stores played the key role in delivering the experience. This is only one example of ways that we've been asking more from our team members than ever before, and that's why this year's investment in our team has been so important.

We've invested in additional hours to support new services while continuing to be available to assist our guests. We've invested in the rollout of a new operating model with more specialized roles that support stronger execution and deliver more product expertise on the sales floor.

With that, I'll turn the call over to John for his comments. John?

John J. Mulligan - Target Corporation - COO and EVP

Thanks, Brian, and good morning, everyone. As Brian mentioned earlier, a key priority of our work and operations is based on the goal to provide new and reliable fulfillment options for our guests. As of today, we have multiple new fulfillment options that are in some phase of testing or rollout across our network. We offer in-store pickup of digital orders, available in all of our store locations. We have a Drive Up service, which we just began testing at 50 locations in the Twin Cities. We now have same-day delivery, which we're testing at 4 stores in New York City. We offer next-day delivery through Target Restock, which is now available for 90 million guests in 11 markets. And we have a ship-from-store capability, which is now in more than 1,400 of our locations.

Of those 5 fulfillment options, only 2 were available as we entered the year: in-store pickup and ship-from-store. And while both of those options are relatively mature, we continue to increase the amount of our digital volume handled by our stores.

Today, the stores are already fulfilling more than half of our total digital volumes through the pickup and ship-from-store capabilities, and that will peak at well above 80% in the days leading up to Christmas. In fact, our stores are planning to ship over 30 million units related to digital orders in the peak 4 weeks of the holiday season, up from about 18 million units last year.

Among the new fulfillment capabilities we've launched this year, Target Restock has been ramping up quickly. During the third quarter, we rolled out this service to an additional 10 markets across the country. We also extended the deadline for next-day delivery to 7 p.m. and expanded the number of eligible items to more than 15,000.

The average value of a restock order is about 50% larger than an average store transaction, and we're pleased that our stores have been able to fill these orders reliably and efficiently. Another capability we've just begun rolling out this year is same-day delivery, which we're now offering at 4 stores in the New York City market. For a small fee, typically between \$5 and \$10 depending on the address, guests can leave their basket with us at checkout and arrange for delivery later the same day, in a time window of their choosing. Guests in these stores are enthusiastically responding to this service. Basket sizes for delivery transactions are running 6x to 9x the average transaction across the 4 stores that have this service. And our Home category continues to account for more than half of the total sales on these delivery orders.

And finally, our new Drive Up capability is in the earliest stage of testing. We rolled out this service to 50 stores in the Twin Cities in the third quarter, and we're pleased with the early results. Specifically, guest survey scores for this service are running well ahead of goal, and the stores are outperforming our goal for average wait time.

Last week, we began offering this service at our next-generation store in Houston. As we look ahead to next year, we'll continue scaling all of our new fulfillment capabilities, including same-day and next-day delivery. Our ultimate goal is to build a supply chain that can reliably deliver any item in our network to all but the most remote areas in the U.S. in 2 days or less with most items delivered in 1 day.

While a large percentage of our digital orders today are already arriving that quickly, we have more work to do before we can reliably deliver in that time frame across all of our assortment. To achieve this goal, and to be able to scale all these new fulfillment capabilities, we need to improve the speed, accuracy and reliability of our entire supply chain from end to end.

While we have already made progress on all of these measures, we still have a lot more to do. And our new flow center in Perth Amboy, New Jersey will help us get there. We added this building to our network not because we needed capacity, but because it will allow our team to learn in a separate facility without the distraction of operating in tandem with the rest of our operations.

It's managed by a very lean team that operates like a start-up, rapidly building solutions from scratch and iterating as they learn. They run their operations with all new systems and processes developed in-house, including their inventory planning system, order management system, warehouse management system and transportation. This facility is now serving 5 of our new small-format stores in New York City, which allows

them to test these new systems under the most extreme conditions. Specifically, these stores generate very high sales per square foot and have little to nonexistent backroom storage space. As a result, they require rapid replenishment.

In fact, our new Herald Square and TriBeCa locations are receiving multiple shipments a day from this facility. When these stores receive merchandise,

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

Thanks, John. Going into this year, 2 of our highest strategic priorities in merchandising were: first, to invest in our exclusive owned brand portfolio to further reinforce our differentiated positioning in the market; and second, strengthening Target's value proposition and positioning, making sure we're priced right daily every day, which we'd reinforce with thoughtful, meaningful promotions that resonate with our guests and support our brand.

As Brian highlighted earlier, we're encouraged by our progress on both priorities. In the third quarter alone, we launched 4 more new and exclusive owned brands across Apparel & Accessories and in Home, which we then followed at the start of the fourth quarter with the blockbuster launch of Hearth and Hand with Magnolia.

Third quarter comp sales in Food and Beverage were up slightly despite a continued headwind from deflation in several categories combined with adjustments from our own work on pricing. We continue to measure steady progress in Food and Beverage, and most encouragingly, we're seeing the strongest results where we've been investing.

This is best evidenced in produce, where we've been investing in freshness, organics, in-stocks and specialized store labor, where we saw a high single-digit comp increase in the quarter. And our beverage also continued its strength, where we saw continued double-digit comp growth, reflecting our work on assortments and in-store presentation across the country.

And lastly, in Essentials, we saw a slight comp decline in the third quarter. Now this area more than any other area has seen the most change from our work on price and value. And as I mentioned upfront, because we're seeing much stronger unit share and trip growth in this category, we are very confident that this year's work will set us up for stronger performance over time.

One further highlight within Beauty, which has continued to gain market share. This category is benefiting from our investments to differentiate both the assortment and the store service model as we focus on emerging trends and first-to-market brand launches, supported by an increasing number of dedicated beauty experts in our store who are available from open to close, all delivered at an unbelievable value.

Before I look ahead to the holidays, our third quarter review wouldn't be complete without a recap of our key seasons. In Back-to-School, we added to our long record of logging comp growth year-after-year, and we saw the strongest results in Kids Apparel and supplies. In Back-to-College, we benefited from positive results in Electronics, reflecting all of the newness I mentioned earlier.

In Halloween, we saw our strongest share results in the early part of the season as the final late-season positive sales surge moved further into the fourth quarter based on the timing of the holiday relative to our fiscal calendar.

As we look ahead to this year's holiday season, we have made significant strategic changes to the quality and level of our inventory position. Our teams have reduced unproductive inventory, which has created room across our network for all the newness we are now delivering.

As we ended the third quarter, we plan for our inventory position to be higher than a year ago, reflecting specific early intentional investments to support the launches of new items in Electronics, along with inventory to support Hearth and Hand with Magnolia, which launched at the beginning of the fourth quarter.

Speaking of Hearth and Hand with Magnolia, we are really pleased with the initial results from the launch, which set the perfect tone for the holidays.

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In Entertainment, we'll continue to highlight Taylor Swift's new album, Reputation, which features 2 exclusive collectible magazines available only at Target. This album broke the record for the number of preorders in advance of its launch last week, and we've continued to see strong demand in sales since the debut.

Throughout the holiday season, we'll continue to offer outstanding value to our guests with meaningful deals on the items that they want the most. New this year, we've introduced Weekend Deals, which features market prices on new items every weekend based on what we know guests are looking for at different times throughout the season.

In addition, we'll continue to offer a regular cadence for our Weekly Ad and Cartwheel offers, and we'll offer some of our lowest price of the year during big events like Black Friday and Cyber Monday. All of these deals are designed to reinforce the work we've done all year to show guests that we are priced right daily, and we'll continue to highlight our new lower prices with signage in our stores and online.

So I hope it's clear that we feel really well-positioned as we enter our peak season. Everything we've planned for this year will reinforce for our guests why they love Target during the holidays by offering unprecedented newness, convenience and meaningful deals, all wrapped up with a uniquely Target marketing campaign that reminds guests of the universal joy that comes from togetherness in the season.

With that, I'll turn it over to Cathy, who will provide more detail on our third quarter financial performance and outlook for the rest of the year. Cathy?

Catherine R. Smith - Target Corporation - CFO and EVP

Thanks, Mark. Consistent with the second quarter, our third quarter traffic, comparable sales and overall financial performance were all stronger than our expectations.

Third quarter comparable sales increased 0.9%, driven by a traffic increase of 1.4%. Both of these numbers decelerated sequentially as we faced a tougher prior year comparison. However, on a 2-year stacked basis, both traffic and comp sales accelerated in the third quarter.

Our third quarter adjusted EPS of \$0.91 was near the upper end of our guidance range of \$0.75 to \$0.95. GAAP EPS from continuing operations was \$0.87, \$0.04 lower than adjusted EPS, driven by the net effect of 2 offsetting factors. The primary impact was \$123 million pretax charge related to our October debt repurchase, which lowered GAAP EPS from continuing operations by \$0.14. This was largely offset by a \$0.10 positive impact related to income tax matters.

The majority of this \$0.10 benefit was driven by a decrease in our 2016 net taxes related to our global sourcing operations. The remaining benefit was related to the favorable resolution of other income tax matters in the quarter.

One other note on our third quarter tax expense. In addition to the matters we've excluded from adjusted EPS, third quarter adjusted and GAAP EPS from continuing operations reflect a \$0.03 benefit from our global sourcing operations related to our 2017 taxes.

Our third quarter gross margin rate of 29.7% was down about 10 basis points from last year. This decline reflects continued pressure from digital fulfillment and our work on pricing and promotions, mostly offset by our cost-control effort. Merchandise mix had a roughly neutral impact on our third quarter gross margin rate as healthy performance in higher-margin categories was balanced by strength in Hardlines.

Our third quarter SG&A expense rate of 21.1% was about 80 basis points higher than last year. This increase was primarily driven by compensation expense, reflecting a year-over-year increase in team member incentives combined with the impact of investments in store hours and wage rates. This was partially offset by the timing of some expenses and our cost saving efforts.

The third quarter depreciation and amortization line was about \$70 million higher than last year. This increase reflects the impact of accelerated depreciation related to next year's remodel program, which will transform about 3x as many stores compared with this year. We recently finalized our specific store remodel plans for next year and subsequently refined our D&A forecast by quarter.

Specifically in the fourth quarter, we expect a similar or somewhat smaller year-over-year increase in the D&A expense line than we just experienced in the third quarter. And as we look ahead to 2018, our current view is that quarterly D&A will be about \$80 million higher than 2017 in each of the first four quarters.

And one final note. Given that the holiday season plays such an important role in our fourth quarter performance, we announced today that we plan to issue a post-holiday season financial update on Tuesday, January 9.

As Brian mentioned earlier, the underlying health of our business and its strong cash flow have enabled the investments that are moving our business forward today. As we look ahead to the next few years, we're planning for continued investments in our business in new and remodeled stores, our supply chain, technology, unique brands, and importantly, in our team. The good news is that our business can sustain those investments

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taking the right approach, but we entered the quarter with a lot of confidence and making a lot of progress against literally every initiative that we set forth earlier this year.

David Adam Schick - *Consumer Edge Research, LLC - Senior Analyst & Director of Research*

Just a sort of follow-up to that, is there any -- what would be -- do you expect to backslide against any traction in key variables, comp, gross profit dollar comp? Help us understand that with this confidence in the guide.

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

David, we don't expect to see any deterioration in the progress that we've been making throughout the year. So again, I think we entered the fourth quarter highly confident and in a very strong position with our stores performing incredibly well, great merchandise, a terrific marketing campaign, great digital capabilities and an expanded suite of digital fulfillment capabilities. So we feel very good about how the entire business is set to perform in the fourth quarter.

Operator

Peter Benedict from Baird.

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

Just on price perception, the work you've been doing, I mean, it sounds like you're pleased with where you've gotten that now at the end of the third quarter. Just -- I mean, do you think that, that's an ongoing process that you're going to have to do? How are you -- you mentioned some of the measurements you're using on that, but just trying to understand, is that something you let ride here for the fourth quarter and then reassess where you are next year? Or do you feel like you've gotten yourself to a spot where there's going to be no further adjustments required?

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

Peter, I think Mark and his team have made tremendous progress over the course of the year. And as we've talked about a number of times now, we're seeing a significant shift of our business towards everyday regular price, which is really important over the long term. So we're going to continue to make sure that we're committed to offering great value, that we're priced right daily, and during the fourth quarter, we'll provide exciting promotions to support those items that we know our guests are going to be interested in shopping for at Target. So it's an ongoing commitment. We want to make sure we deliver great value across the season. And we're going to make sure that we couple that with exciting promotions in the fourth quarter.

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

Okay. And then one maybe follow-up for John. You talked about a lot of the fulfillment options that you guys are working on. Help us through -- how does that impact the store labor model as you see kind of going forward? And within that, the \$15 minimum wage plan. I understand it's not a fourth quarter question, it's more just as you look out the next few years. How do you see that -- those having an impact on the labor?

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

Well, I think, clearly, as we do more fulfillment out of the store, we will add labor to support that. I think we've said since February, we're going to invest in the labor in our stores, invest in training, invest in having experts in the store, invest in having people on the sales floor and changing the operating model for those stores. So that's an important part of what we're doing. Almost separately and independently, we're building teams that

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-- so that we don't take hours away from everything else we're doing that are handling the fulfillment in the back room. So it's really a question of the operating model in the store that's evolving. And we feel really good about utilizing the stores, they're the closest, fastest and cheapest way to get merchandise to our guests. They have significant capabilities now. We're doing same-day, next-day, 2-day pick up, Drive Up, all kinds of ways to meet the guests' needs, and I think that's the important factor, all centered around using the store as the hub. And we think it's a highly efficient way to use our assets, and we have great teams that can meet the capabilities that we need for our guests.

Operator

Our next question comes from Edward Kelley from Wells Fargo.

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

Yes. So I guess, my first question really is around the fourth quarter and the comparisons that you're facing last year. So in-store comps were particularly soft, the gross margin was down a lot, there were issues around digital fulfillment. I guess -- you talk about the underlying momentum of the business not stalling at all, but can you talk about how you expect to cycle those issues from last year?

Brian C. Cornell - Target Corporation - Chairman & CEO

Ed, again, as we entered this season, I think we're in much a stronger position. John underscored the fact that we've got an expanded array of digital fulfillment capabilities. Mark's talked about the progress we've made from both a brand standpoint but also a value standpoint. I think we continue to enhance our digital capabilities. So I think we entered this season in a much stronger position. And I think what's really important to recognize is the investments we've made in our team and our stores puts us in a very strong position as we enter the fourth quarter. So I feel great about the investments we've made in wages, in hours, in seasonal hiring. And I think our stores are going to drive both our digital business and our store business throughout the fourth quarter. So I think we entered the season in a very different position versus last year. And I think that's reflected in the start that we've seen to the season and the approach we're taking throughout the fourth quarter.

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

Okay. And second question for you. I just want to -- I know you don't want to give guidance for next year, but I was hoping that maybe you could talk about the puts and the takes in terms of what we should be thinking about, areas that you could see outsized investment, D&A is going to be headwind next year, wages clearly seem like they'll be a headwind. Your thoughts on price investments from here, the Street's sort of looking for a modest decline in earnings, seems like something like that -- larger than that's possible. It's just -- I don't know how much at this point, Brian, you can help with that, but I think it is an area that we're all sort of wrestling with.

Brian C. Cornell - Target Corporation - Chairman & CEO

Well, Ed, we're hopeful that you'll join us in March for next year's Financial Community Day. Obviously, we're not going to provide 2018 guidance today. But I'll give you a preview. You're going to hear us talk about many of the same things we've been talking about this year: our commitment to the store experience and continuing to remodel stores across the country, our commitment to opening up new small formats in new neighborhoods and on college campuses, our continued commitment to digital, our commitment to enhancing our fulfillment capabilities, our continued commitment to new brands and building our proprietary fleet of brands and an ongoing commitment to value. And all of that will be underscored by our commitment to our team. So we'll go through that in much more detail in March. But as a preview, we're going to be talking about the exact same suite of initiatives next year that we've been talking about this year. We feel great about the progress. Our strategy is working. Each one of those initiatives is on track or ahead of schedule, and we expect to accelerate those initiatives in 2018.

Operator

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

I'll start with the in-stock question. I think, Bob, we talked about in-stocks last year in February. It's a journey for us, we know. I think we've made a lot of progress in in-stocks given our current capabilities. But we also said, in order to really solve the problem, we need to fix some fundamental capabilities in our supply chain around speed, reliability, inventory placement. And that's where we're on the journey. So the inventory increase at the end of Q3, as Mark said, more related to us being sure we're ready for the fourth quarter in categories like Electronics, Hearth and Hand, where we took positions, intentional inventory positions to increase inventories in advance of the fourth quarter. Less to do with our management of day-to-day in-stocks/out-of-stocks. We continue to work on those. And as I said, there is the short term, working within our current capabilities and in the longer term solve that comes as we continue to improve our overall supply chain capabilities. Your second question, I'm not entirely clear, Bob, on where your -- maybe you could clarify how -- your question, the store labor related to fulfillment, I'm not -- I didn't quite understand it.

Robert Scott Drbul - *Nomura Securities Co. Ltd., Research Division - Former MD and Analyst*

Sorry. Just from the perspective of the expense levels, like the pressure that you saw in the third quarter versus the expectation of the pressure, fulfilling more than 80% in the stores on the expense lines specifically.

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

Yes, I wouldn't compare it to third quarter. Compared to last year, we are doing more fulfillment in-store. As we said, we think that's the most cost-effective way given the total P&L. So shipping plus store labor, we think that's the most cost-effective way to do it. Compared to last year, we saw significant spikes last year near the end of the quarter, approaching 80% fulfillment. And I would say, when you get into that 80% range, what really goes up is store pickup, and we'll take that model all day long, highly efficient for us, highly profitable from a digital perspective. So when our mix gets that high in store, we actually like the economics a lot.

Operator

Matt Fassler from Goldman Sachs.

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

I've got 2 questions, and my first relates to gross margin. Just to revisit, the fact that you do have this very depressed compare from a year ago, and you're actually entering Q4 with pretty good gross margin momentum, down only very nominally in Q3 as some of your new brands are really starting to get traction. So is your thinking on the expectation of a decline in gross margin simply a factor of more business being done online each year and the cost of fulfillment associated with that? Or are some of the new fulfillment options that you're introducing just somewhat more costly and you're giving yourself room to absorb that pressure?

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

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

Matt, I'd only build on a couple of comments that Cathy made. One, we feel very good about the performance of our own brands and from a gross margin standpoint, both short term and long term, that's going to be very beneficial to our mix. Two, we are clearly investing in digital and digital capabilities and expect that we're going to continue to see strong digital growth in the fourth quarter. So it is the mix of our business that really makes sure that our gross margin returns stay on track. But the work that Mark and his team have done with our own brands and the results that we're seeing across our 8 new brands is very beneficial, both short term and long term, to our gross margin rate performance.

Matthew Jeremy Fassler

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

I might start up with the Drive Up shopper there. I think our guest survey scores there, NPS scores are, frankly, off the charts. We see a high utility. It's mom with 2 kids in the back, right? A core Target shopper who just doesn't -- it's raining outside and doesn't want to get out of the car. So we've seen very, very high scores there. The baskets are mixed as you'd imagine, right? Sometimes they're larger, sometimes it's only one thing. And the same is very true for pickup in store, driven by -- it can be driven by promotional cadence, it can be driven by convenience. There's lots of different reasons people choose that option and so the basket varies. There's nothing really to glean from that other than for both of them, we see very high NPS scores for our guests, which is the most important thing from our perspective.

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

Robbie, why don't I clear up the question around guidance for the quarter and, really, I'll focus on the full year. I think our fourth quarter guidance is a reflection of the performance we've been delivering throughout the year. And I'll go back and note as Cathy discussed, our full year guidance is up \$0.50. I'll do the math for it. That's \$500 million of improvement versus our original guidance. So we certainly approach the fourth quarter with a level of balance and conservatism, but feel good about the momentum we have. And we think the performance we've been delivering throughout the year will be reflected in our fourth quarter. So we feel confident, we're making good progress, there's a lot of business still to be done in the fourth quarter. And I think our range of comp of flat to 2 and the approach we're taking from an EPS standpoint just reflects the approach we've been taking throughout the year.

Operator

Kate McShane from Citi.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

My question was around fulfillment as well and a little bit longer term in nature. I had wondered with regards to the Drive Up and the same-day delivery, if there are any early indications of what the limitations might be in terms of where you can introduce that and then also with regards to the profitability of how those 2 fulfillment options relate to the ship-from-store?

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

Yes, I'll let John talk about the profitability component. But Kate, I think one of the great things about our strategy is the important role our stores play. And as we think about Drive Up, we think about same day, those are going to be enabled by the 1,800 stores that are in neighborhoods around the country. So we should be able to continue to expand that over time and meet the needs of our guests no matter where they live and which store they shop in.

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

And on your question about profitability, clearly the closer we are to the store, the better we like it. When a guest comes in and picks it off the shelf, great. Only slightly disadvantaged to that would be pickup or Drive Up because there is one more touch. But really, again, economically, a great,

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team so that the guest gets the great service and we make that a great economic transaction for Target as well. But we feel good about our ability to make it work.

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

So with that, operator, that concludes our third quarter 2017 earnings conference call. I want to thank everybody for participating and wish everyone a happy holiday season. So thank you.

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