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TGT.N - Q3 2022 Target Corp Earnings Call

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OVERVIEW:

TGT reported 3Q22 results.

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

Thanks, John. As I begin the call today, I want to highlight the proactive leadership position we will continue to take as the operating environment changes. Just as we took decisive action in the second quarter to rightsize our inventory, we're moving proactively in a period of rapidly softening demand and elevated uncertainty to successfully navigate near-term challenges alongside our team and in step with our guests.

As we look specifically at third quarter results, they demonstrate how our business continues to serve our guests even in the face of an increasingly challenging backdrop. Because of the deepening level of trust we've established with our guests over the last several years, our top line continues to benefit from growth in guest traffic and unit share gains across all of our core categories. This is particularly notable as consumers are showing increasing signs of stress and pulling back from discretionary purchases, and it reinforces the value of having a balanced multi-category portfolio, which allows us to satisfy our guests' ever-changing needs.

In today's environment, that means we continue to benefit from strong growth and market share gains in the categories our guests are leaning into most right now, including Food & Beverage, Beauty and Household Essentials. Q3 comparable sales grew 2.7% on top of 12.7% a year ago and 20.7% in the third quarter of 2020.

As you recall, early in the second quarter, we announced we would be taking decisive inventory actions based on the rapid change in consumer buying patterns that emerged near the end of the first quarter. These actions were designed to ensure we could continue to provide what our guests know and love about Target. More specifically, the effort was designed to free up space in our stores and hours for our team to continue offering fresh inventory and a reliable, uncluttered shopping experience for our guests, setting up our business to deliver strong growth in Q3.

Among the drivers of our comparable sales, third quarter traffic expanded 1.4% on top of 12.9% growth a year ago. In addition to traffic growth, we saw a 1.3% increase in average ticket as guests continue to rely on Target for convenient, reliable one-stop shop. Across our merchandise categories and similar to the second quarter, we saw a very strong growth in our frequency businesses, led by double-digit growth in both Beauty and Food & Beverage. That strength offset persistent softness in our discretionary categories, which worsened at the end of the quarter. Christina will provide more detail in a few minutes.

While overall Q3 comp growth was nearly identical to our second quarter performance, we experienced dramatically different trends within the quarter. More specifically, through the first 2 months of the quarter, we had seen comp growth of well over 3%, and then saw a deceleration to just under 1% in October.

Even within the month of October results in the back half of the month were much softer than in the first half and the mix of our sales tilted much more heavily towards promotions. This rapid change in trend is consistent with what we're seeing in syndicated data on broader industry trends and the feedback we're hearing from our guests. More specifically, consumers are feeling increasing levels of stress, driven by persistently high inflation, rapidly rising interest rates and an elevated sense of uncertainty about their economic prospects.

With high rates of inflation contouring the road, their purchasing power, many consumers this year have relied on borrowing or dipping into their savings to manage their weekly budgets. But for many consumers, those options are starting to run out. As a result, our guests are exhibiting wts. Bepe

Looking ahead and taking recent trends into account, our team is making adjustments in real time with agility and flexibility in light of the revised expectations for both the top and bottom lines in the fourth quarter. It's in tough environments like these that we're most fortunate to have a durable business model and a strong balance sheet, allowing us to maintain our focus on long-term investments and market share opportunities at a time when many others will be forced to pull back. And to create additional capacity for us to continue investing in long-term growth and

the pressures they're facing, our guests want to celebrate the holidays in person with loved ones, and they're looking for Target to provide them safety, ease and joy as they prepare for every celebration.

These themes played out in the third quarter as guests responded increasingly to promotions, even as they celebrated key seasonal moments like back-to-school, college and Halloween. Among our frequency categories, Beauty continues to drive strong performance, delivering sales growth in the mid-teens. Skin care, hair care and cosmetics, all performed very well and our Ulta Beauty at Target offerings nearly tripled their total sales volume when compared to this period a year ago.

Food & Beverage continues to outperform the market with low double-digit growth and strength across the portfolio, gaining both dollar and unit share every week throughout the quarter. Comparable sales in Essentials categories grew in the low single digits, reflecting particular strength in pets and health.

While already soft, sales trends in our discretionary categories softened even more in the last few weeks of the quarter, a trend that's persisted into the first few weeks of November. But importantly, despite this challenging environment, we still saw unit share gains in all 5 of our core merchandising categories in the quarter, a sign that when guests are looking for convenience and value on both wants and needs, they're increasingly turning to Target.

Apparel comps were down only slightly in Q3, driven by growth in kids, men's, seasonal and new fashion forward assortments, offset by softness despite tt



prices for the season, with prices up to 50% off across toys and games, electronics, kitchen appliances and more. Besides industry-leading promotions, we are offering compelling, easy to shop, everyday price points on key items like \$3 Christmas ornaments, \$5 holiday Wondershop and candle assortments, and \$10 gifting assortments across categories like Beauty, Apparel and Home.

And to reinforce our commitment to value, we'll be offering free and easy payment and fulfillment options, including our recently launched reloadable RedCard, which provides all the benefits of our RedCard debit and credit programs, including free shipping and 5% off every purchase, all without the need for a credit check or an existing bank account. Combine this with our easy, convenient and free same-day service options like Drive-Up and order pickup, all with no membership fees and our free-to-join loyalty program, Target Circle, we have an unmatched combination of value-added and affordable shopping experiences to help our guests celebrate and amplify the joy of the holidays.

Throughout the season, we will remain nimble and respond to changes in consumer promotional and macro trends, always in service of optimizing current and long-term performance. And despite the challenges facing our business and our guests, we have a not-so-secret-weapon to help us provide joy and value for our guests, a world-class team. Like Brian, I want to pause and add my sincere gratitude for the Target team. No matter what is thrown your way, you execute with grace compassion and consistency, a combination that leads our guests to return to our stores and website time and time again.

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

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

Thanks, Christina. Across the operations team, we focus every day on delivering strong execution, even as we continue to keep our eyes on and

Now I'll turn to the work of our properties team, where we're still wrapping up some projects but close to completing our supply chain and store projects for the year. On the distribution side, we're continuing our work to build replenishment capacity across the country, given the amount of growth we've delivered over the last few years.

The other big addition to our distribution infrastructure is the build-out of our sortation center strategy. A year ago, we were operating a single sort center here in the Minneapolis market. And this year, we've opened 5 more with several more on track to open in 2023. These centers, which are typically a little bigger than a single store, increase our speed and meaningfully reduce our last-mile delivery costs in the markets where they operate. They also create backroom fulfillment capacity in the stores they serve, as they eliminate the need for each individual store to sort the boxes they've packed for delivery.

On the store side, we are on track to complete about 200 full remodel projects this year in which we update every part of the store to reflect our latest thinking and offer a modern and inspirational shopping experience for our guests. Beyond full remodels, we're also on track to complete about 200 fulfillment retrofits this year in which we optimize their capacity and efficiency in supporting our same-day services.

And finally, the team is on track to complete our new store program for 2022, in which we plan to add 23 new locations to the chain. The size of these new stores ranges widely from 19,000 to 145,000 square feet as we continue to open the right size store for the neighborhood we're serving. And as we've mentioned in recent calls, based on evolving conditions in the commercial real estate market, we've been finding more and more opportunities to open larger locations that can offer the full range of our assortment, along with a full suite of fulfillment options to serve our guests.

In light of that opportunity, just over a week ago, we opened the first example of a new larger store prototype in the Houston, Texas market. At

over time. That's why we're ensuring our teams are staying focused on our guests and taking the right actions to continue deepening our relationship with them. If we maintain that guest focus, I'm confident we'll find ourselves in an even stronger competitive position over time.

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

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

Thanks, John. I want to start where John just ended and reiterate how closely we're listening to our guests, ensuring we understand how they're feeling and how that is affecting their shopping behavior and moving quickly to serve their rapidly-changing needs. Obviously, if recent softening consumer trends continue through the fourth quarter, that will put some pressure on our near-term financial performance. But with a durable model and an agile team, we can navigate those challenges and emerge even stronger in the long term while continuing to deepen our relationship with guests and build long-term preference for Target.

Once again, this quarter, I'm going to begin my remarks by covering our inventory position, given that it continues to be an important area of focus. And like last quarter, I'm going to base my discussion on comparisons to 2019, given the highly volatile conditions that have affected inventory since the onset of the pandemic.

As you saw on our balance sheet this morning, we owned \$17.1 billion of inventory at the end of the third quarter, which is \$5.7 billion higher than the end of Q3 2019. In percentage terms, this year's number represents an approximate 50% increase from 3 years ago, a deceleration from 3-year growth of 68% as of the end of the second quarter.

Of the dollar increase in our inventory since 2019, about 2/3 or \$3.9 billion is aligned with our sales growth over that same 3-year period. The remaining 1/3 or about \$1.8 billion is new inventory that's arrived early relative to when it would have been received in pre-pandemic years.

This early inventory is being driven by 2 related factors. The first is our explicit decision to add cushion to our lead times this year in order to mitigate the risk we were facing a year ago when the bulk of our global shipments were arriving late. The second factor is the unexpectedly rapid acceleration in the global supply chain that we saw in Q3, which caused us to receive shipments even earlier than scheduled.

It's also important to note that the composition of our inventory continues to evolve as we've leaned into frequency categories where we're seeing robust growth and taken an increasingly cautious position in discretionary categories. More specifically, the percent of our inventory units in discretionary categories was 8 percentage points lower than at the end of Q2 and lower than in 2019 as well.

With that context, I'll turn to our third quarter financial performance, beginning with the top line. Total sales grew 3.3% in the third quarter, the same as in Q2, driven by a 2.7% increase in comparable sales, combined with the benefit of new stores. Total revenue grew 3.4% in Q3, reflecting a 9.5% increase in other revenue, which was driven by the growth in our Roundel ad business. Traffic continues to be an important driver of our growth, having expanded 1.4% in Q3 on top of nearly 13% growth a year ago. In addition, this quarter, we benefited from a 1.3% increase in average ticket.

Among our sales channels, stores continue to drive our growth as we saw a 3.2% increase in store comparable sales in Q3 on top of nearly 10% growth a year ago. Comparable sales in our digital channel grew 0.3% in the quarter on top of nearly 30% last year. Same-day services led our digital growth, most notably through our Drive-Up service, which delivered high single-digit growth on top of more than 80% growth last year.

As Brian mentioned, while our overall Q3 comp increase was consistent with Q2, we saw a dramatic change in the pace and composition of our business toward the end of the third quarter. More specifically, within the quarter, comparable sales grew 2.8% in August, rose to 4% in September and decelerated to 0.9% in October. Also notable, even within the October period, there was a dramatic change in the pace of our sales.

As you'll recall, the month began with an initial round of holiday promotions from Target and some of our competitors, and in that week, we saw a high single-digit increase in comp sales compared with last year. However, for the remainder of the month, we saw a low single-digit decline in comp sales over those last 3 weeks.

Nearly all of the slowdown was driven by our discretionary categories, Apparel, Home and Hardlines, as our guests became increasingly cautious

And finally, we didn't repurchase any shares in the third quarter, given current financial performance and the working capital investments we've made to support in-stocks and early receipts. In the near term, we will continue to take a very cautious approach to share repurchase in light of the volatility of the environment and our commitment to maintaining our middle A credit ratings.

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

Before we turn to your questions, I want to relay a few thoughts that I shared with our Target team earlier today. While the circumstances we're facing are difficult and certainly not what anyone would wish for, we need to embrace the moment, focus on what we can control and lean into our strengths. Because even as we face multiple challenges, all at the same time, we have an even longer list of strengths on our side. And there are quite a few headwinds, but we've shown time and time again that our strengths can overcome any challenge we face.

We have nearly 2,000 well-located, well-maintained store locations. We have a rapidly growing set of owned brands that are already generating more than \$30 billion in annual sales. And we have a unique and growing list of national brand partners, including Starbucks, CVS Health, Levi's, Apple, Disney and Ulta Beauty.

Our unmatched product design, development and sourcing capabilities allow us to offer an unbeatable combination of price, quality, design and fashion throughout our own brand portfolio. We have a durable operating model and a balanced portfolio of merchandise categories, which allow us to pivot quickly in a rapidly changing environment.

Our operations are profitable, generate robust cash flow and are backed by a strong balance sheet that enables continued investment during lean times. And of course, we have a unique, amazing, passionate team that has only grown stronger over the last few years. So this morning, I've asked our team to focus on what they do best, moving with agility and responding to the environment in real time, delivering outstanding execution throughout the holiday season and beyond and doing it all as one team, aligned in support of our guests and each other.

While we'd all prefer to be operating in a more robust environment, today, we have the opportunity and all the resources we need to continue playing offense while many others cannot. By harnessing the strength of our assets and our amazing team I'm confident we'll continue to grow guest engagement and deliver compelling growth on both the top and bottom line over time.

With that, we can move to Q&A. Now Christina, John, Michael and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Christopher Horvers with JPMorgan.

Christopher Michael Horvers - JPMorgan Chase & Co, Research Division - Senior A 1 ehiday 0 tearch DivTnd dol36 136 274.- Jto haplk ab(thr weJto anc --/

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

Chris, did you have a second question?

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

Yes. The second question is really your views about structural margins and how it's changing. You did a 6% operating margin in '19, and you've just added \$30 billion in sales. You did a \$7 billion in '20 and \$8 billion in '21. I guess, what's changing? How do you think about the puts and takes? There's more inflation, it seems like on the SG&A side. And yes, in the near term, there is more inventory moving costs and promotion. But I guess how do you think about the long term, especially in light of the \$2 billion to \$3 billion cost target?

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

Yes, Chris, I'll take that one, too. We're definitely not operating at a profit level we expect to over time. And the onetime impacts we've seen this year from the volatility and the change in trend has led us to more markdowns salvage action on inventory than we've seen historically by a wide margin. And so we would expect to get a lot of that margin and that improved markdown performance back. And so that's the factor I'd start with first.

And the second thing I'd call out is what you heard us describe in terms of the efficiency opportunities we have in the business. To your exact point, we've generated incredible scale quickly. That opens up a lot of opportunities for us to rethink process technology and create efficiencies throughout the business by taking that scale that came on us quickly, stepping back and optimizing the business against that scale. So we're excited about the efficiencies that should come with the growth that we've seen over time.

Operator

The next question is from Michael Lasser with UBS.

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

Obviously, Target performance this year has been volatile. And Michael Fiddelke, you just mentioned that you do believe you can get the margin that you lost this year to transition your inventory back. But now you're also saying that you need to cut \$2 billion to \$3 billion in cost to support your profitability over the next few years, which, in a way, undermines the idea that you can get the margin back that you lost.

So, a, can you size in aggregate how much you think is recapturable? Is it \$2 billion to \$3 billion and you add another \$2 billion to \$3 billion on that. You're playing with a pool of savings that's really \$4 billion to \$6 billion over the next couple of years. So, a, is that right? And then I have a follow-up question.

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

Michael, thanks for joining us today. And obviously, we're going to spend a lot more time at our investor conference talking about the efficiency initiative. But it might be helpful for us to share a couple of examples of the work that we think is in front of us. And I might ask John to start first and talk about some of the learning we've seen from a fulfillment standpoint and have Christina talked about some opportunities that we're already looking at from a merchandising standpoint.

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

Yes, Michael, I think this is -- I think, Michael Fiddelke characterized it well. This is work we always do. We've always done this. And when we look back at fulfillment, this is something we've done year after year. And I remember back in 2017, taking lots of questions about, will you guys have enough capacity in your stores to do all this fulfillment, and taking that question in 2018 and 2019. And here we are with a digital business that's 20% of our business now and 95%, 96% of our fulfillment is done in stores.

And so when you look at what we've done there, it is essentially what Michael is talking about, continually going back, looking at the process, modifying the process, reinventing the process, investing some capital in some cases to support things like Drive-Up or extra-pack stations and consistently over that time, increasing our unit productivity as it relates to fulfillment in double digits every year since then. And that's created capacity for us to continue to drive our digital business and improved our economic performance in the digital business along the way.

And so when we step back and look at all the scale we've gained, just like that scale we gained in the digital business that allowed us to continually improve fulfillment, we've gained all the scale now in our existing business, the broader business, and that allows us to take a step back look, at what we've been kind of doing in the last couple of years to meet our guest demand as we grew quickly and say, there's a lot of places for us to go back, reinvent process, add additional technology and improve the way we deliver for our guests.

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

And I would add on a similar note, we think that there is opportunity to do that same step back on how we create, make, buy, move and sell our Apparel business. You think about the exceptional growth that we've had in our business across the board, but certainly in a big category like Apparel and the volatility we've seen in import transportation lead times and ups and downs in the market. For us to take a step back and say, is there process flow, technology, planning decisions, sourcing decisions and opportunities to flow inventory with more efficiency is at the heart of this exercise. We actually have started it a while ago, and we'll really be able to accelerate the investment in that process work and reimagine the opportunity around our Apparel line.

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

Michael, I want to make sure we're really clear. We see significant opportunities over the next 3 years, two, buying cost savings in the neighborhood of \$2 billion to \$3 billion as we improve process and simplify our operations. At the same time, we'll continue to be focused on growth and taking market share and meeting our guests and continue to enhance our business position. So it's not an either/or, it's an and. We'll continue to be focused on being a growth company, continuing to build market share, driving traffic to our stores and visit store sites and become a much more efficient organization that leverages the scale we've gained over the last 3 years.

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

That's super helpful. Let me just clarify that and ask 1 follow-up question. Is the \$2 billion to \$3 billion on top of what you'll get from recouping the inventory write-downs, the cancellation fees that you paid to cancel orders this year? Or is that -- is \$2 billion to \$3 billion inclusive of that recapture opportunity?

My second question is, do you need to make price investments in the business to improve the perception amongst customers during this difficult economic time, that is taking more front-stage discussion now that your big competitor talked about a good start to its fourth quarter? So there's discussion around whether Target might be losing share to its competitor that's perceived to be more value oriented.

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

So Michael, there are a couple of questions there. One, we see the savings as being incremental for an operating plan; two, we do expect that the holiday season is going to be very promotional. We're seeing that as we move into the month of November. But as we've mentioned many times,

one of the things that really stands out in our quarter is our ability to continue to hold and gain unit market share across all 5 of our merchandising categories.

So we're continuing to build share. We're going to continue to see traffic driving our business, and we think it's going to be a promotional holiday season, and we're prepared to compete in this environment.

Operator

Our next question is from Ed Yruma with Piper Sandler.

Edward James Yruma - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I guess first, you called out shrink a number of times and I know it's been a persistent issue, but it seems like it's intensifying. Is this something you think you can remediate kind of tactically or process? Or is this kind of endemic of other structural issues, namely maybe the location of some of your newer stores and jurisdictions where maybe shrink is just more endemic?

And then as a bigger picture question, as you look to '23, with the consumer being volatile, how quickly can you bend the merchandise offering to focus more on those entry price point or those value-seeking items that the consumer is demanding today?

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

Ed, this is John. I'll take the shrink question. I think, first, I'd say it started probably in some localized geographies originally, but we see those circles expanding and expanding and the impact continuing to grow. I think from a solutions perspective, we see 2 things. One, this is a nationwide problem that we need to address nationwide with other retailers. This is primarily driven by organized crime. And so there is a role for us to work as a retail group with law enforcement with the government to help find solutions.

More specific to Target, there are things that we can do from a remediation standpoint. We have put those in place in a number of stores, and we see the impact of that. It's obviously not something we like to do. It's far less convenient for guests as they shop our stores, but we think we can manage that from a service perspective.

And you can see us continue to do that. As we see stores that are more impacted, we'll continue to provide additional remediation factors. The

the Target equation. It's all also relevant with the assortment that's fresh, seasonal and on trend. It doesn't matter what your priced at if the assortment is relevant. And that's why we need to always stay on-Target.

Operator

The next question is from Scott Mushkin with R5 Capital.

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

And you guys got into some good detail about the cost savings you have planned. I was wondering, is there any thought that 2023, we may have an extension of the challenges and thinking about CapEx, thinking about labor hours and how you might attack that in 2023 as the Fed is successful here and engineers a recession?

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

Scott, as you might imagine, right now, we are laser focused on the holiday season and making sure we end 2022 in a position where we continue to hold and grow share and meet the needs of our guests. For the very early stages of looking at 2023, we'll be back after the first of the year with more details about our overall plans, including CapEx spending and our outlook for the overall consumer environment.

So give us a few weeks, we'll be back to you after the first of the year, but obviously, we're going to spend a lot of time right now focused on executing our plan, getting through the holiday season and then assessing the consumer and the overall retail landscape as we look to 2023.

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

So then another extension of the question, but I wanted to get a second view on this. Imitation is the best form of flattery. And one of the competitors, especially in Apparel and Home, has been copying you guys pretty readily and partnering with other brands. I mean how much do you think that could impact your sales or maybe is impacting your sales in those categories? Or do you think it's really not a factor?

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

Scott, it's why we spend so much time looking at unit market share performance. And as we continue to perform well across our entire portfolio, we feel like we've got the right mix of great national brand partners that strengthen our own brands. We have a fabulous in-store experience and the ease and simplicity of our digital channels. So we think we're well positioned to continue to hold and grow share across our entire portfolio, not just in the holiday season but for years to come.

Operator

The next question is from Robby Ohmes with Bank of America.

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

Maybe for Christina and maybe Brian can chime in here. I know it's early, but with the kind of shift in trends you're seeing, is there any more you can tell us maybe about the income demographic dissecting of your guests? Has there been any changes in patterns amongst that? So for example, Walmart obviously called out yesterday that they're seeing more of these \$100,000-plus people trading into Walmart. Is there anything that you can tell us about your lower-income guests versus your middle or higher income that helps us understand what's going on?

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

Simeon, I'll go back to some of the syndicated data that we've been looking at. And clearly, across all of retail, we saw a change in shopping behavior in the back half of October leading into November. The most recent information we've seen from NPD would indicate during the first week of November, general merchandise categories contracted by 14%. So a very significant change in shopping behavior.

So I think, as Christina pointed out a number of times, we've had a consumer who has been dealing with very stubborn inflation for quarter after quarter now. They're certainly starting to look at higher prices in Food & Beverage, in many cases, prices that are up double digits. They're shopping very carefully on a budget. And I think they're looking at discretionary categories and saying, "All right, if I'm going to buy, I'm looking for a great deal and a great value."

So what we've seen overall is a change in consumer behavior over the last few weeks. We're going to watch it carefully throughout the holiday season, but I think it is a byproduct of a consumer who has been facing higher costs throughout the year, is working with their budget, shopping very carefully, looking for value and recognize they've got to start with core staples before they spend dollars in discretionary categories.

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

Yes. That makes sense. And my follow-up is the \$2 billion to \$3 billion, it sounds like it's process oriented. But some of the things you mentioned in terms of flowing inventory, it seems like that will require CapEx. And again, I don't want to put words in your mouth, but to be able to drive these efficiencies, is it pure process? Or does CapEx need to step up to make investments in order to realize the savings?

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

Yes. It's a fair question, Simeon. And sometimes it involves CapEx, and we're happy to invest that CapEx when the return is there. And so if we can put capital into the business that can drive efficiency for the team, I think you've seen us do that with technology in stores and supply chain, so

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

I will answer that with where you ended your question, Kate, and that is we are committed to being clean at the end of the holiday season. And you're also right in the first half of your question. We accomplished what we wanted to in the first half of the year. We feel good about that work. And you heard me quote some versus 2019 benchmarks. If you were to just look versus last year, you'll see that Q2, out inventory was up 36% year-on-year; in Q3, it's about 14%. And so we made good progress on the plans we had in place. Obviously, we're looking at the change in the trends closely. If that trend we see persists, it will come with more markdowns to make sure we accomplish exactly that goal of ending the season clean.

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

Operator, that concludes our third quarter call. We wish everyone a safe and happy holiday season and look forward to seeing you in person in 2023. So thank you.

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