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# EDITED TRANSCRIPT

TGT.N - Q3 2020 Target Corp Earnings Call

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## OVERVIEW:

Co. reported 3Q20 YoverY total sales growth of 21.3% and GAAP EPS from continuing operations of \$2.01.

## CORPORATE PARTICIPANTS

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

**John Hulbert** *Target Corporation - VP of IR*

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

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

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

**Edward James Yruma** *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

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**Robert Frederick Ohmes** *BofA Merrill Lynch, Research Division - MD*

**Stephanie Marie Schiller Wissink** *Jefferies LLC, Research Division - Equity Analyst and MD*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation third quarter earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, November 18, 2020.

I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

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### John Hulbert - Target Corporation - VP of IR

Good morning, everyone, and thank you for joining us on our third quarter 2020 earnings conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; John Mulligan, Chief Operating Officer; and Michael Fiddelke, Chief Financial Officer.

In a few moments, Brian, John and Michael will provide their perspective on the third quarter and our priorities as we move into the holiday season. Following the remarks, we'll open the phone lines for a question-and-answer session.

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

And finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our 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 on the quarter and our focus going forward. Brian?

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

Thanks, John, and good morning, everyone. Before I move to our third quarter results, I want to acknowledge our team. In an incredibly challenging environment, they have stayed focused on our guests, looked out for each other and built on the purpose and a clear set of priorities we've had in place for several years, making Target an even more relevant and responsive company for the millions of families we serve every week.

Back-to-College and our overall business strengthened in September, driving comp growth in the mid-20% range for the month overall. In October, comp growth settled back to approximately 20%, consistent with our comp growth for the full quarter.

Across our core merchandise categories, third quarter growth was strongest in Hardlines, which saw comp growth in the mid-30% range. Within Hardlines, result was strongest in electronics, which grew more than 50%, driven by particular strength in computer software, video games, portable electronic and office equipment.

Within our style categories, results were strongest in home. We saw comp growth in the mid-20% range, with the strongest growth in decor and kitchen. Comp sales in apparel grew by nearly 10%, led by results in intimates and sleepwear as well as men's apparel.

Consistent with the second quarter, both our Essentials & Beauty and Food & Beverage categories saw third quarter comp growth in the high teens. In Essentials & Beauty, we saw strength across the entire portfolio with the strongest results in paper and pet. Similarly, in Food & Beverage, we saw broad-based growth with a particular strength in adult beverages and dry grocery.

Following our announcement in the second quarter, this was the first full quarter in which our starting wage was \$15 or higher across the country, up from \$13 a year ago. The attainment of this milestone was the culmination of a commitment we first announced in the fall of 2017 when our starting wage across the country was \$10. Our team has always been a key differentiator for our stores and our brand. And this \$15 commitment was intended to attract, reward and retain top talent for what has long been the best team in retail.

Beyond our longer-term goal to raise Target's starting wage, this year, we've also focused on recognizing our team's outsized efforts during these extraordinary times. Specifically, we have awarded 4 separate recognition bonuses so far in 2020. Most recently, in October, we awarded \$200 to each of our frontline team members in support of our plan to invest more than \$1 billion in our team for the year.

As we build our plans for the fourth quarter, our team focused first on flexibility and agility, knowing how volatile and unpredictable the external environment continues to be. We focused on leveraging Target's strengths, including the emotional connection between our brands and our guests and the convenience and speed of our stores-as-hub model. We're focused on listening to our guests to understand what they're experiencing, and they've told us that safety is one of their top concerns. So on top of our goal to be the easiest place to shop, we're committed to being the safest place to shop as well.

In support of that goal, we've implemented a number of technology improvements to make shopping at Target more contact-free. These include an enhancement to our self-service lanes, which means guests no longer need to use the hand scanner to pay with their wallet function in our app. We made changes to Drive Up that eliminate the need for a team member to scan a guest phone when they deliver an order. We've rolled out a new capability on Target.com, allowing guests to check in, in advance to see whether we're currently metering traffic in their store and allow them to reserve a spot in line before leaving home. In addition, we have altered our promotional cadence to avoid events that typically cause crowd. And we announced that we'll be closed on Thanksgiving and open at the regular time on Black Friday.

Rather than concentrating holiday deals around Thanksgiving and Black Friday, we've spread our Black Friday offers throughout the entire month of November with weekly promotions spread across different categories throughout the month. And in the spirit of transparency and trust, we've assured our guests that if they see any of our Black Friday items for a lower price later in this season, we'll happily make up the difference through our extended price match policy.

To minimize lines, we've added more than 1,000 mobile checkout devices across the chain, allowing our team members to help guests check out anywhere in the store. We've also added thousands of gift items eligible for same-day fulfillment. And we're entering the holiday season with more than double the number of Drive Up parking spaces compared with a year ago.

In addition, we've added fresh, refrigerated and frozen items to our Pick Up and Drive Up assortment in more than 1,600 locations across the country, making this the first holiday season in which guests from coast-to-coast can use these convenient services to pick up everything they need for a holiday meal.

We're also continuing to expand the number of our merchandise categories available through our Shipt service, most recently adding kids and adult apparel. This change provides a new contactless option for guest to shop these categories and have them delivered to their front doors in as little as an hour.

While many things will be different this year, our guests have told us that they still plan to celebrate the holidays, and we know they'll be looking to Target for some holiday magic.

That's why we're so excited about our recently announced partnership with FAO Schwarz. New for this holiday season, Target and FAO Schwarz have collaborated on an exclusive 70-piece toy collection with many items priced under \$20. This collection will be available at Target stores nationwide, on Target.com and the flagship FAO Schwarz store in New York City.

Beyond this unique collection, this holiday, we've created our biggest ever list of Top Toys, including more than 600 exclusive items, which we'll feature at an incredible value all-season long.

In decor, we're focused on bringing Target's brand promise to life T 1 36feak1We'alirh oNla liyn withh uncesr of rnamcenms priced at\$3, \$5s and

for those of us who have the privilege of working with every part of this team, we see it every day behind the scenes even when no one else is looking.

So I'll close with a simple thank you to this team for your passion to make Target a welcoming place for all families and a great place to work for everyone on the team.

With that, I'll turn the call over to John for an update on our operations and plans for the holiday season. John?

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

Thanks, Brian. When you pull back and consider what's happened in our business this year, it's clear that a couple of defining themes have emerged. The first is flexibility. You've seen that play out in our merchandising assortment, enabling us to satisfy our guests' rapidly changing wants and needs throughout the year.

You've also seen it play out in our operations as our stores-as-hubs model allowed our team to pivot seamlessly when guests move their shopping between stores and our digital channels. This flexibility will continue to serve us well in the fourth quarter and beyond, given that we continue to face an elevated level of uncertainty across multiple aspects of our business.

Our third quarter results continue to demonstrate the power of our same-day services to deliver speed and convenience for our guests while driving an impressive amount of the company's growth. In the third quarter, our same-day services grew well over 200% compared with last year, adding more than \$1 billion of incremental sales. Nearly \$700 million of this growth was from our Drive Up service alone, which increased more than 500% compared with last year. Amazingly, this growth was not at the expense of in-store pickup, which increased more than 50%. And while Shipt remains the smallest of our same-day services, it continues to grow rapidly as Target sales on Shipt increased nearly 280% in the quarter, accounting for more than \$200 million of incremental sales.

I want to pause and give a shout out to our team at Shipt and congratulate them on an incredible year of growth and expansion, which has included a doubling of their shopper base.

Altogether, our third quarter digital sales grew more than \$2 billion compared with last year. For perspective, \$2 billion is more than our company's total digital sales for the entire year in 2014. Somehow, I think I should pause for a second and let that sink in. But instead, maybe I'll pile on by making the same point a different way and point out that between the first 3 quarters of 2014 and the same period this year, the compound annual growth rate of our digital sales was 45% over that 6-year period.

Another area in which we've seen amazing flexibility is in the management of our inventory as we've adapted to huge swings in the pace of sales among individual categories and worked to support overall growth that's been well above expectation.

As I mentioned last quarter, while we continue to make progress, we've seen some persistent inventory shortfalls for a couple of distinct reasons. First, in several of our long lead categories, like electronics, home and apparel, our team has been playing catch-up given that we experienced an unexpected sharp and sustained explosion in demand for these categories. The team has done a great job of chasing and expediting inventory to support these categories, which enabled the unusually strong comps that Brian outlined earlier. Even more encouraging, we ended the third quarter in a much better position than where we started, and we expect to see additional recovery in the fourth quarter.

The other driver of inventory shortfalls in 2020 is related to industry dynamics as the producers of cleaning and paper products have been working to ramp up production in the face of a dramatically higher demand across all of U.S. retail. Happily, we're also making progress in these categories. While we're not yet back to pre-COVID levels, we saw supply improve during the quarter and we expect to make continued progress in the fourth quarter.

Overall, our progress is reflected in the aggregate numbers. Specifically, we started the third quarter with inventory down about 3% compared with the year ago and ended more than 11% higher than a year ago after a quarter in which our sales grew more than 20%. This is a remarkable progress and puts us in a much better position as we move into the fourth quarter.

I also want to highlight the flexibility of our properties team who just opened 18 new stores in October. For the year, our team successfully opened 30 new stores, of which 29 were small formats, making 2020 the biggest year of small format openings ever.

In any year, setting records would be notable. But in a year in which COVID caused us to delay our new store construction, it's been amazing to watch how quickly our team was able to restart such a large number of projects and successfully bring them to completion in advance of the holiday season.

Beyond flexibility, another key theme this year is capacity as we consider the physical resources we'll need to support our business over time. As Brian mentioned, we've already grown our sales by more than \$10 billion through the first 3 quarters of 2020. And again, for context, that \$10 billion of incremental sales is more than our total sales growth between 2011 and 2019, an 8-year period. You might well have wondered whether compressing 8 years of growth into less than a year was even possible. But clearly, the capacity was there. And while capacity is a function of replenishment as well as fulfillment, the question we hear most often is whether we'll continue to have enough capacity for our digital fulfillment. And in that regard, the primary factor is our strategic decision to place our stores as the center of fulfillment. By relying on the same asset to fulfill both our conventional and digital sales, the key to fulfillment capacity is the store asset itself and the speed with which we can move inventory through it. You might refer to that as our ability to increase turnover. But sometimes you'll hear engineers like Michael and me refer to that metric as throughput just to sound smart.

As we said in the past, sales per foot is a useful proxy for throughput. So let's consider how that has progressed so far this year. As a baseline, for the full year in 2019, average sales per foot at Target were about \$320. And so far this year, that metric has grown about 19% compared with last year. So just as a thought exercise, if you assumed we were going to grow our sales productivity at that same pace for the full year, we'd end 2020 at about \$380 per foot.

Now I need to pause quickly and reinforce. I'm using a hypothetical 19% number. I'm not providing guidance for the quarter. I'm just giving us something to anchor on.

So the critical question is after growing sales per foot from the lower end of the \$300 range into the upper 300s, do we have any more capacity in our stores? The answer is certainly yes. Last year, in our second quarter call, I mentioned that our top quartile stores averaged well over \$400 a foot back in 2018 and that number has grown to nearly \$500 since then. If we can average nearly \$500 a foot on nearly 500 of our most productive stores, I think it's clear we have capacity to grow the chain average well beyond where it is today. And that capacity would be there even if we kept doing what we're doing today.

But of course, we continue to find ways to improve throughput. And one of our newest options is to deploy sortation centers in markets where delivery density is high. To better assess this concept, we recently opened our first sortation center here in Minneapolis, which will allow our teams to test, learn and assess its ultimate potential before determining whether to roll out the concept further.

The business case for our sortation center is straightforward: by moving the sorting and staging prospects out of the stores, it frees up backroom space, enabling additional throughput. Stores can simply focus on packing the orders, which are then transferred multiple times per day to the sortation center where they can be sorted and staged at a larger scale, driving per-unit efficiencies and potentially reducing the number of split shipments. In addition, we can reduce per-unit shipping cost by deploying technology from Grand Junction, which helps us to allocate packages across different providers and applying recently acquired technology from Deliv to help us to optimize sortation and injection into those provider networks.

But unit efficiencies are only part of the potential benefit. While these centers require some capital investment, they are designed to increase both throughput and capital efficiency of our existing network, which should reduce the need for us to invest capital in order to deploy more sortation centers. It's a win-win.

Net-net, our expectation is that investing in sortation centers will be a more capital-efficient way to add capacity, and we'll be assessing that potential through the test.





Altogether, the business delivered an exceptionally high operating margin rate of 8.5%, more than 3 percentage points higher than last year. On a dollar basis, operating income grew more than \$900 million or more than 90% compared with last year.

On the interest expense line, we recognized a \$512 million loss on debt extinguishment related to a debt tender offer we executed in October.

In light of our higher profitability, income taxes grew by about \$90 million compared with last year.

On the bottom line, despite the loss on debt extinguishment, which was equivalent to \$0.75 of pressure, third quarter GAAP EPS from continuing operations established a new record high of \$2.01, representing an increase of 46% compared with \$1.37 last year. Adjusted EPS, which excluded the debt extinguishment loss and a couple of other small factors in both years, also established a new record high of \$2.79, more than 100% higher than \$1.36 last year.

Our business continues to generate very strong cash flow. Specifically, through the first 3 quarters of the year, our operations have delivered just over \$7 billion of cash, which is nearly \$3 billion more than a year ago. Obviously, our profit performance is an important factor in this increase, but we also continued to benefit from unusually high payables leverage, which is running well over 100%. Consistent with my comments last quarter and despite the inventory growth John mentioned earlier, we would have chosen to have less cash at the end of the quarter and more inventory if that option had been available.

In light of the continued strength of our cash generation and resulting cash position on our balance sheet, our treasury team recently elected to take a couple of actions. The first was the execution of a debt tender offer in October, in which we invested \$2.3 billion of cash to retire \$1.8 billion of high coupon long-term debt. This transaction created significant economic value and it will significantly reduce future interest costs. In addition, it allowed us to deploy the bulk of the extra cash we added in the first quarter when, like many other well-capitalized companies, we chose to take on additional liquidity insurance at a time of extreme uncertainty following the onset of the pandemic.

The other decision was made earlier this month when we terminated a supplementary 364-day credit facility, which was also added during the period of extremely high uncertainty during the first quarter.

over time, the acceleration over the last 2 quarters has been well beyond anything we would have expected. And given that our inventories have been consistently lower than we'd prefer, we gladly would have traded some cash for more inventory over the last 2 quarters even though that would have driven this metric somewhat lower.

So now before I close, I want to comment a little bit about our outlook. While we stopped providing financial guidance back in the first quarter, I want to outline a number of important considerations as we move into the holiday season and the fourth quarter overall. The first is the continued headwinds facing the consumer and the economy. In light of uncertainty around the path of the pandemic and continued elevated levels of unemployment.

Offsetting this pressure, beginning with the onset of the pandemic, there has been a significant change in the mix of consumer spending as a meaningful portion has shifted away from travel and multiple forms of out-of-home entertainment and into many of the categories we sell.

We also continue to benefit from trip consolidation as consumers have increasingly relied on our stores and digital services to satisfy a wide variety of their wants and needs in a single trip.

Beyond these macro trends, there are a number of more specific considerations as we enter the holiday. The first is the expected change in the category mix of our fourth quarter business as typically both our electronics and toy categories generate half their annual sales in the fourth quarter. Given that both of these categories have seen dramatically stronger sales since the pandemic began, it's more difficult than usual to predict how the pattern will play out in the fourth quarter.

Similarly, the digital mix of our sales, an important factor in our overall profitability, typically reaches a seasonal peak in the fourth quarter. This year, it's difficult to predict how high our digital mix will become given that we've already seen dramatically higher levels of digital penetration all year.

So the natural question is, once you quantify all the potential headwinds and tailwinds you've just outlined, what's your fourth quarter forecast? Well, I think that's a great question. The reality is that none of us can accurately predict the future as all of us are facing a much higher level of uncertainty compared with a normal year. That's the reason why we've suspended financial guidance, but that doesn't mean we can't affect the outcome. As I've mentioned before, we continue to prioritize flexibility as we plan our business and focus on agility in our operations. That way, when the unexpected happens, our team can respond quickly and effectively as you've seen so far this year.

Looking ahead to next year, the crystal ball doesn't get any clearer. Not only is it uncertain when the coronavirus will be fully behind us, it's also unclear how the consumer will behave in a post-COVID world. That creates uncertainty about the path of multiple categories as you consider how the mix of consumer spending will evolve and what the competitive landscape will look like. In adapting to that new world, we'll need to understand what that will mean for our business and how the financial metrics that have been dramatically changed this year will settle down over time. And today, while we can't answer these questions any more accurately than you can, it's clear that flexibility and agility will continue to be vitally important.

So while specific metrics will continue to be difficult to predict, we continue to have a high degree of confidence in our business and our ability to outperform. That's because based on the hard work of our team over the last few years, we now have a business model that's demonstrated its ability to deliver market share growth and profitability across a range of environments that's been far wider than any of us would have expected. And importantly, in a time where virtually nothing has stayed consistent, the one reliable through line across weeks and product categories has been consistent share gains throughout the year.

In addition, we've seen a massive increase in guest engagement this year as they ventured into new categories and services at Target. And as I mentioned in our first quarter call, we've long known that engagement with guests at a time when their habits are changing is an incredibly important factor in deepening long-term loyalty. It's the reason we prioritize the Back-to-College season when many consumers are moving away from home for the first time. It's also the reason we're there for young couples when they get married and when they have children because our relationship with young families has long been a foundational aspect of our strategy.

But most importantly, our team is a huge reason why we're confident in our future. We've long told you that we have the best team in retail, and this year's experience has demonstrated why we feel that way. Throughout the year, our team has stayed optimistic, they've taken care of each other, they've offered friendly service to our guests and they've successfully overcome a host of unforeseen challenges. The longer I've been at Target, the more I've seen how our team is Target's secret sauce, and I want to express my sincere gratitude to all of them for everything they've accomplished so far this year.

With that, I'll turn it back over to Brian for some final thoughts. Brian?

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

Thank you. I want to reinforce Michael's commentary on our connection to families, which is so fundamental to our strategy. It's right at the center of our corporate purpose: to help all families discover the joy of everyday life. As we enter the holiday season at the end of a truly remarkable year, we're humbled and gratified at the number of families who have turned to Target to help them stay connected this year. We've helped them to find everything they need for a birthday party, including the decor, the food, the presents and a card. We created registries for couples getting married and for parents excited to celebrate the birth of a new child. We've helped our guests to stay connected from a distance with a new mobile phone or tablet. And we've helped them enjoy the additional time they're spending at home, whether that was new decor, office equipment, toys, video games or even activewear now that it's become work appropriate in a world in which all meetings are virtual.

Even though the holidays will be different this year, we know our guests still want to discover the joy and connect with those closest to them. So our team is focused on helping to make that happen while providing helpful and friendly service in a safe environment during the busiest time of the year.

So with that, we'll move to Q&A. John, Michael and I will be happy to take your questions.

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So we expect this to be a season that's going to be very different, unlike any other we've ever seen. But we expect that guests will decorate their home, and there'll be gifts under the tree and they'll find special ways to celebrate the holiday season. And they'll turn to Target and our multi-category portfolio and our suite of fulfillment services as a way to make that happen.

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

Understood. And then on the long term, so you've seen the likes of Levi's, Disney shop-in-shops, Ulta last week. Today, WWD has an article that Journelle is coming to Target. It's clear the level of fashion is on the rise at Target. There are plenty of well-known brands that sell into likes of Penneys and Kohl's and Macy's that now seem like a natural fit from Under Armour, Chaps, CK. Is this an active strategy that you are pursuing on the apparel side? What's been the dialogue there? And is there any pushback that you've heard from these types of brands?

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

First, to be really clear, our focus will always be on curation and making sure we balance the right mix of our own brand and select national brand partners. And that will be an approach we'll take for years to come. So we're very excited about some of our new partnerships and working now with Levi's. And next year, in 2021, welcoming Ulta Beauty to our stores and to Target.com. But we'll always be curators and finding the right mix for our guests between our own brands and iconic national brands.

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**Operator**

Our next question comes from Stephanie Wissink from Jefferies.

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**Stephanie Marie Schiller Wissink** - *Jefferies LLC, Research Division - Equity Analyst and MD*

I have a follow-up question to Chris' question just on brand expansion, but I'm curious if we can look through the lens of your guest profile. Any insights into new to file guests, where they might be coming from and how those baskets may look relative to your historic average guest?

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

Stephanie, we've talked about the number of new guests that have turned to Target during the pandemic. As John and Michael and I referred to in our opening comments, we're seeing a guest shop multiple categories, take advantage of our vast multi-category portfolio. Some days, they're shopping our stores. Some days, they're taking advantage of our same-day fulfillment services. And we expect that to continue. So the guests that are shopping our stores right now are taking advantage of the multiple categories that we sell. They are shopping in apparel and home. They're coming into Hardlines and Food & Beverage. They're taking advantage of our Beauty offerings as well as Household Essentials. And again, some days, we see them taking advantage of the investments we've made to create a safe shopping experience in-store. And other days, they're taking advantage of the ease and convenience of our same-day fulfillment services.

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**Operator**

And our next question comes from Edward Kelly from Wells Fargo.

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

Your gross margin performance this quarter was excellent obviously. But can you provide a bit more color just on the markdown situation? So of the 200 basis points that you mentioned, was that all markdowns? How much of that was just less promos versus clearance?

And then how do we think about Q4 as it relates to these line items? It's obviously pretty hard for us to predict at this point. I'm sure for you as well. But any color there, I think, would be helpful.

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

Sure. I can take that one. When you think about the drivers in Q3, the north of 200 basis points of good news from a bucket of levers within

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

Sure. Yes, we remain really bullish on the small-format stores and the opportunity in front of us there. We have many different types of trade areas that we have opened small formats in over the years, and by and large, they are all performing well.

There's a couple that I would say are probably not quite where we'd like to be given the year. One is college campuses. Those stores that are heavily

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

Karen, right now, we're very focused on the first half of 2021. And this is going to be a familiar theme: really taking some of the lessons learned from 2020, putting a premium on flexibility and agility because as Michael and I have both said, we, unfortunately, don't have that crystal ball as we look to the future. We're all looking for greater certainty. But we know we're going to go into the first half of 2021 facing the continued pandemic, waiting for vaccines, looking for greater clarity around the condition of the economy and unemployment. And I think we're going to just have to make sure that we remain flexible and provide the assortment and the services and the safety that the guest is looking for from Target.

We certainly expect certain trends will continue. We think guests will continue to consolidate the number of locations where they shop. We think our multi-category portfolio will continue to be very important as we serve the needs of families. We think ease and convenience, combined with safety, will continue to be important. And we'll continue to deliver great value.

So Michael talked about our continued focus on market share and the market share opportunities that are in front of us, and I think we'll be very focused on continuing to build off of the market share gains that we achieved in 2020 and further share opportunities in 2021.

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**Operator**



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

So I think the only thing I'd add is we look at our performance, our comps by geography each and every week. And we're seeing very consistent results literally across the country. From both coasts and the heartland of America and in the Southern market, really consistent comp and growth performance. So certainly, it's not 1 or 2 markets that are driving it. It's not our top-tier stores versus some of our lower-volume stores. We're seeing a consistent lift across the entire fleet of stores and obviously very strong growth in our digital channels.

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**Operator**

And our next question comes from Paul Trussell from Deutsche Bank.

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**Paul Trussell** - *Deutsche Bank AG, Research Division - Research Analyst*

Very strong quarter. The question I'm not going to ask is to John on whether there's enough capacity for the holiday season. I think the point is very well made there.

But I do want to ask about -- I do want to ask about the evolution of the same-day services. And just curious on what you're learning given the robust growth, how you're improving efficiency, your ability to add additional items of merchandise in categories to be included in those services?

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

Yes. Well, first, thank you, God bless you for not asking about capacity. I would tell you, our store teams and the Shipt team continue to execute our same-day services at a very, very high level. And I think you hit on one of the things we've been very focused on this year, which is really assortment expansion. For Drive Up and for Pick Up, that has meant adding frozen, refrigerated and fresh foods. We are on a trajectory when we started the year to add it to about 300 stores. We obviously paused in the early spring. And then as things started to open up, really proud of the way our store teams responded and decided we could execute that across our properties team, supply chain and stores to get that in close to 1,600 of our stores today. And so that's available and that's been a huge win for our guests.

We see the unit increases -- the number of units in the basket increase as guests start shopping that. It was the #1 guest satisfier. If I can come and get diapers and a couple of other things, why can't I get a gallon of milk and some eggs. And so now we're able to fulfill that.

Right along with that, in OPU and Drive Up -- with Order Pick Up and Drive Up, we've added adult beverage, another key category for us where, again, it just tops off the basket. So a real guest satisfier and we'll continue to work to add other categories at Shipt. The opportunity there was to get some more of our discretionary categories available for our guests as they use our same-day service. And so as Brian mentioned earlier in the call, we added children's and adult apparel to that right here before the holiday. We think that will do very well.

So the teams continue to execute, continue to build efficiencies into what we're doing. But importantly -- I think the most important thing is they continue to ask the guests what it is they want and what we can fulfill for them and you'll see us continue to work toward that. And that will guide really how we continue to improve those services.

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**Operator**

Our final question comes from Robby Ohmes from Bank of America.

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**Robert Frederick Ohmes** - *BofA Merrill Lynch, Research Division - MD*

First, Brian and team, I just want to say congrats on the execution of your strategy. It's been plain remarkable.

My question, I'm sorry, I'm going to ask two. Brian, you mentioned Shipt. I was wondering if you could give us a little more on Shipt and profitability and maybe growth outside of Target, maybe a little more color on what Shipt is becoming.

And then the second, maybe a shorter question, just a Target Plus, your marketplace. Anything changing with your strategy there that you can share with us, given your momentum online?

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

John, you want to start with Shipt and then we'll wrap up with Target Plus.

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

Yes. We continue to be really, really pleased with the performance of Shipt and the execution of the team. As we said, Shipt at Target has grown 280% this quarter, \$200 million of incremental sales. So -- and it's a key part of what we're going to do here in the fourth quarter, we think you'll see us throughout the fourth quarter really lean into our same-day service as Order Pick Up, Drive Up and Shipt as a way -- as our way to fulfill our guest needs, and Shipt will be a big part of that.

I think beyond that, Shipt continues to experience very strong growth. They continue to add retailers. There are over 100 national and regional retailers. They added Bed Bath & Beyond this quarter in addition to a few others. They've doubled the number of shoppers since the spring and are planning to add another 100,000 shoppers here for the fourth quarter. So we continue to see really strong growth, and we're very pleased with Shipt's performance overall.

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

And Robby, on Target Plus, our approach continues to be the same. We're very selectively curating some vendor partners. I think we're up to about 175 right now. We probably have now close to 400,000 SKUs available through Target Plus. But we'll continue to make sure we curate very carefully and complement our store and online assortment.

So with that, I do want to thank everyone for joining us today. I wish everyone a safe and happy holiday season. We look forward to the day when we can all be back together in person.

But thanks for joining us. Thanks for your support, and have a safe and happy holiday season.

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