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## TGT.N - Q2 2023 Target Corp Earnings Call

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OVERVIEW:

Company Summary

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

Thanks, John, and good morning, everyone. In the second quarter, our team and our business model showed remarkable resilience in the face of multiple headwinds in the external environment. While these headwinds have led to a temporary slowdown in the pace of our business, that doesn't mean our team is standing still. Throughout the company, our team remains focused on staying agile and flexible as we continue to serve our guests and to listen carefully to them in this very dynamic environment.

And we're fortunate to have a business model that's inherently flexible by design. We offer a balanced multi-category assortment that's focused on our guests' wants and needs, allowing us to stay relevant in any environment and to quickly pivot as our guest priorities change. And our unique stores as hubs model, a concept we pioneered in the retail industry, allows us to serve our guests quickly, flexibly and reliably on every shopping journey, whether it takes place in a store or on a digital device.

By continuously listening to, learning from and engaging with our guests and then refining our playbook with their insights, we'll continue to achieve our purpose of delivering everyday joy for all the families we serve while reinforcing our strong culture of caring, growing and winning together.

As you'll recall, in the first half of 2022, we were faced with excess inventory, driven by a rapid change in consumer spending patterns. In the face of that challenge, the team took important steps a year ago, allowing us to quickly adjust our inventory down to the proper level. Those critical decisions have allowed our team to operate efficiently while focusing on serving our guests. They've enabled the presentation of fresh, seasonally appropriate assortments throughout the year and provided the flexibility to lean into share opportunities in key seasons, like Back-to-School and Back-to-College. And importantly, last year's inventory actions laid the groundwork for the recovery in profitability we've achieved so far this year.

Our team also played a critical role in our second quarter profit performance. As we began to see softening sales trends early in the quarter, the team in our stores and supply chain responded with speed and agility. Their discipline, along with ongoing efficiency efforts, allowed our profit performance to exceed our original expectations despite a meaningful shortfall on the top line.

More specifically, for the quarter just ended, operating income expanded by more than $800 million compared with a year ago. And despite the fact we've experienced more than a percentage point of cumulative profit pressure from higher shrink since 2019, our EPS of $3.86 through the first half of the year is more than 15% higher than in 2019. While this is encouraging progress, we are confident we'll see further meaningful increases in our profitability over time.

On the top line, Q2 results were below our expectations as comparable sales decreased 5.4%. Within the quarter, comp trends softened from the second half of May into June, before we saw a meaningful recovery in both traffic and comps in July. In the month, we were especially pleased with trends around Independence Day holiday, along with Circle Week, which also resulted in the addition of more than 0.5 million new Target Circle members.

Consistent with recent industry trends, second quarter comps reflected continued growth in our frequency categories, offset by notable softer results in our more discretionary categories. Across channels, sales were strongest in our stores, while results in our digital channel were led by continued growth in our Drive-Up service. Consistent with our stores as hubs strategy, more than 97% of our second quarter sales were fulfilled by our stores.

As we've described for more than a year now, the divergence of sales trends between our frequency and discretionary categories is being driven by multiple cross currents that are affecting the U.S. consumer. These include the impact of inflation in frequency categories, like Food & Beverage and Essentials, causing these categories to absorb a much-higher portion of consumers' budgets. In addition, consumers are choosing to increase spending on services, like leisure travel, entertainment and food away from home, putting near-term pressure on discretionary products. And finally, the rollback of government efforts to support consumers during the pandemic, including stimulus payments, enhanced child care tax credits and the suspension of student loan payments, presents an ongoing headwind that consumers continue to manage.

Beyond these factors in the second quarter, many of our store team members faced a negative guest reaction to our Pride assortment. As you know, we have featured a Pride assortment for more than a decade. However, after the launch of the assortment this year, members of our team began experiencing threats and aggressive actions that affected their sense of safety and well being while at work.

I want to make it clear: We denounce violence and hate of all kinds, and the safety our team and our guests is our top priority. So to protect the team in the face of these threatening circumstances, we quickly made changes, including the removal of items that were at the center of the most significant confrontational behavior.

Pride is one of many heritage moments that are important to our guests and our team, and we'll continue to support these moments in the future. They are just one part of our commitment to support a diverse team, which helps us serve a diverse set of guests. And as we talk to these guests, they consistently tell us that Target is their happy place, somewhere they can go to escape and recharge. So as we navigate an ever-changing operating and social environment, we're committed to staying close to our guests and their expectations of Target.

Specific to Pride and Heritage months, we're focused on building assortments that are celebratory and joyous with wide-ranging relevance, being mindful of timing, placement and presentation, leaning into segmentation and leveraging our digital experience and reconsidering the mix ofthey coov

So now before I turn the call over to Christina, I want to pause and take stock of where our business is today. And I think it's helpful to pull back the lens because 2023 is the fourth year in a row in which the external backdrop has been far different from anything we've ever experienced. Yet today, as a result of our team's consistent efforts to listen, understand and serve our guests, Target is a much different company than it was 4 years ago. We have the right strategy, guest relevance and team to deliver sustainable long-term growth.

Through the first half of 2023, our total revenue of just over $50 billion was about 39% higher than the $36 billion we delivered in 2019. This growth reflects significant increases across our entire business in all 5 merchandising categories in both our stores and digital channels and in our Roundel assortment to resonate broadly and deliver on the Target brand promise. In this case, the reaction is a signal for us to pause, adapt and learn so that our future approach to these moments balances celebration, inclusivity and broad-based appeal.

As we move ahead, we're confident that if we stay close to our guests, consistently execute on our retail fundamentals and continue investing in our assortments, services and experiences, we will position Target for continued growth over the long term. After all, as a guest-led company, we have been listening to and learning from our guests for decades.

As an example, last year, we heard loud and clear that Target Circle members love exclusive events. So we repurposed last year's Deal Days and made our Target Circle Week in July bigger than ever with incremental promotions and new ways to engage. In fact, we enrolled well over 0.5 million new guests during this event alone, more than 3.5x higher than in an average week.

Additionally, Beauty guests told us for years how they would love the convenience of completing their beauty trip with access to prestige beauty products while shopping at Target. This led to the development of a unique partnership with Ulta Beauty to meet those needs. And today, based on the strong results we've seen so far, we continue to expand the footprint of these new shop-in-shops.

As John will cover in more detail, we continue to invest heavily in our in-store experience, which starts with new stores and remodels that incorporate our latest and greatest offerings, including Apple, Levi's and Disney experiences, as well as the additional Ulta Beauty at Target locations. And just like we remodel our stores to reflect our latest thinking and guest feedback into the shopping experience, we'll begin rolling out a remodel of our digital experience this quarter.

Based on guest feedback, we're investing to create a digital experience that enhances the love of discovery while balancing the ease of navigation. This will include different landing experiences, more personalized content, enhanced search functionality, ease of navigation and other updates to bring more joy and convenience to our digital guests.

Through it all, our teams continue to exhibit a commitment to excellence in the pursuit of helping all families discover the joy of everyday life. Regardless of the external environment, our team consistently shows up and rises to the moment. I'm incredibly proud to work alongside such a talented team. Thank you for all you do to bring that Target magic to life day in and day out.

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

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

Thanks, Christina. Like Brian and Christina, I want to start by thanking our amazing team. This quarter's better-than-expected profitability was a testament to their agility and resilience as they successfully managed through multiple challenges.

And while the team deserves credit for this performance, they got an assist from this year's leaner inventory position which offered more room to maneuver than a year ago when the team was dealing with excess inventory. This year, with unclouded facilities, a renewed focus on retail fundamentals and our continued work to enhance efficiency, the team delivered an impressive increase in profitability in the face of a challenging top line.

Across the entire supply chain, we're benefiting from much more favorable conditions than a year ago. Perhaps most notable is in global shipping, where second quarter import lead times were nearly 30 days shorter than last year and within a couple of days of pre-pandemic levels. In our domestic supply chain, because of strong partnership with our vendors, we're seeing improvement on multiple performance metrics, including fill rates and on-time arrivals. And at our regional distribution centers, inbound backlogs have been reduced by more than a day since last year.

In the new flow centers we've opened over the last couple of years, we're also seeing improvements across multiple performance metrics as these new buildings continue to scale up towards capacity. In support of their primary role in replenishing store inventory, these facilities were designed and equipped to support our stores as hubs strategy with newly developed automation that can assemble customized, presorted and sequence shipments for every store they serve.

With these shipments, stores see faster replenishment times, require less labor to unload a trailer and maintain lower levels of backroom inventory. More precisely, stores being serviced by these new facilities have seen a 20% reduction in lead times, enabling them to respond more quickly to changes in guest demand. Also notable, stores serviced by these new facilities are benefiting from improvements in in-stock levels while maintaining lower levels of backroom inventory.

Beyond store replenishment, we're operating these new flow centers in a way that's unique within the industry. In the same way we pioneered ways to leverage the proximity, inventory and assets in our stores to quickly and efficiently fulfill digital orders, we're leveraging those same characteristics of our flow centers to fulfill certain digital orders beyond their primary role in replenishing store inventories.

In light of our focus on retail fundamentals throughout the supply chain, our stores are seeing meaningful improvements in their in-stocks, even with 17% lower inventory on our balance sheet than a year ago. In the second quarter, overall in-stocks were a full percentage point better than first quarter and more than 2 points better than last year. We've seen even bigger improvements on our top items and in our top stores. And this year, we sat with meaningfully better in-stocks on key seasonal programs, including Back-to-School and Back-to-College, than we saw a year ago.

Our new sortation centers are delivering outstanding results. These facilities operate downstream from our stores and help to increase the speed and efficiency of last-mile delivery. Up to 70% of the packages processed by these facilities stay in the local market, allowing us to partner with Shipt to handle the last mile. This integration with Shipt allows us to achieve meaningful efficiency and cost savings while offering much greater speed of delivery to our guests.

More specifically, in markets where we operate a sortation center, the average click-to-deliver time is nearly 1.5 days shorter than the network average, with about 1/3 of the packages arriving in only 1 day. As we continue to open new buildings and test and iterate on their operating model, we expect these speed metrics will continue to improve in the future.

Today, based on the proven success of this strategy, we have 10 sortation centers already operating and expect to open at least 6 more over the next few years. This current group of sortation centers is expected to process more than 35 million packages in 2023, representing a more than 20% increase from a year ago and a more than sixfold increase from 2021.

As I described in our call 3 months ago, store teams this year have been focused on reinforcing best practices that support the retail fundamentals Christina highlighted earlier. In particular, this year, we've been investing to provide incremental training and reporting on several key factors that play a critical role in providing a great shopping experience, including staffing and scheduling; setting, filling and replenishing merchandise presentations; and protecting the safety of our guests and our team.

Highlight of our second quarter projects was the opening of our first new offshore location since 2021, a new store in the Oahu Windward Mall, Our Q2 gross margin rate of 27% was 5.5 percentage points higher than a year ago. This increase reflects multiple benefits within merchandising, including lower markdowns and other inventory-related costs, along with the benefit of lower freight and transportation costs.

Beyond merchandising, we also saw about 0.5 point of benefit in digital fulfillment and supply chain due to a lower mix of digital sales and a favorable mix of same-day services within the digital channel. Offsetting these benefits was a 90 basis point headwind from inventory shrink, in line with our expectations.

One note. Consistent with the first quarter, category mix did not affect our gross margin rate compared with last year, and we saw a similar deceleration across all 5 of our core merchandising categories between Q1 and Q2 of this year.

Our second quarter SG&A expense rate was 1.7 percentage points higher than last year. This increase reflects the deleveraging impact of lower sales, combined with the impact of higher costs, including continued investments in pay and benefits for our team and inflationary pressures throughout our business. These pressures were partially offset by disciplined cost management across our team.

On the D&A expense line. The Q2 rate was about 20 basis points higher than last year, reflecting the deleveraging impact of lower sales on a 3.9% increase in dollars.

Altogether, our Q2 operating margin rate of 4.8% was about 4x higher than last year, reflecting a meaningful recovery from last year's inventory actions. On the bottom line, our second quarter GAAP and adjusted EPS of $1.80 was significantly higher than last year and above the high end of our guidance range. While we expected to see a big improvement in profitability this quarter, I can't emphasize enough the importance of our team's agility in delivering this performance, something that's even more notable given that shrink drove nearly a full point of profit pressure versus last year.

Now I want to turn briefly to capital deployment and start with our priorities, which have served us well for decades. First, we fully invest in our business, in projects that meet our strategic and financial criteria. Then we look to support our dividend and build on more than 50 years of consecutive annual increases. And finally, we return any excess cash through share repurchase over time within the limits of our Middle A credit ratings.

So far this year, we've made capital expenditures of $2.8 billion and continue to expect full year CapEx in the $4 billion to $5 billion range. In the second quarter, we paid $499 million in dividends compared with $417 million last year, reflecting a 20% increase in the per share dividend. And finally, we didn't repurchase any shares in Q2 as we continue to focus on strengthening our balance sheet and restoring our debt metrics to levels that support our Middle A credit ratings.

And we're encouraged by the progress we've already made, as the combined benefit of a significant profit recovery and lean inventory position have driven a meaningful improvement in operating cash flow. More specifically, our operations have generated $3.4 billion in cash through the first half of this year compared with a slightly negative number through the first half of last year.

I'll end my comments on the quarter with our after-tax return on invested capital, which measures our current profit performance in the context of our long-term investments. For the second quarter, our trailing 12-month after-tax ROIC was 13.7%. While still healthy in absolute terms and more than 2 percentage points higher than the first quarter, it remains well below the level where we expect to operate over time.

Now I'll turn to our expectations for Q3 and the remainder of the year. And today, as we assess the economic and industry backdrop, we continue to see a mixed picture. On the positive side, GDP, employment and overall consumer spending have been resilient, and we're beginning to see a recovery in consumer confidence. On the other side of the ledger, while we're happy to see inflation rates begin to moderate, that's likely to cause some near-term pressure on dollar comps in our frequency categories. In addition, the upcoming resumption of student loan repayments will put additional pressure on the already strained budgets of tens of millions of households. Against this backdrop, we remain cautious in our planning, an approach that has served us really well so far this year.

On the top line, we're now planning for comparable sales in a wide range centered around a mid-single-digit decline for the remainder of the year, consistent with what we experienced in July and the second quarter overall. This updated sales expectation is meaningfully softer than our expectation at the beginning of the year.

With this change in the top line, we've also adjusted our bottom line guidance and now expect full year GAAP and adjusted EPS in the $7 to $8 range compared with our prior range of $7.75 to $8.75. While multiple factors will determine where our actual results wind up in comparison to this expected range, the single most important variable will be the pace of our sales as we're confident we'll continue to benefit from our efficiency efforts and lean inventory position.

In the third quarter, we're expecting GAAP and adjusted EPS in a range from $1.20 to $1.60 on a wide range of comparable sales centered around a mid-single-digit decline. In terms of quarterly EPS cadence, I want to take note of a couple of unique circumstances this year. The first is shrink and how that is expected to play out over the next 2 quarters.

As I mentioned earlier, based on the high loss rates we're continuing to see, second quarter shrink was consistent with our expectations, and our full year shrink expectations remain unchanged. However, we expect the year-over-year comparisons will look meaningfully different between Q3 and Q4. In Q3, we expect the dollar and rate pressure from shrink will be roughly consistent with the first half of the year at around 90 basis points. However, in Q4, we expect to see a small amount of year-over-year favorability from shrink.

I want to stress that this anticipated change in quarterly comparisons does not reflect an expectation that underlying loss rates will begin to improve in Q4. As Brian mentioned, we're working hard, both inside our stores and with government and community partners, to achieve lower loss rates over time. And our long-run expectation is that shrink rates will moderate from today's unsustainable levels.

But so far, we've only seen indications that loss rates might soon be reaching a plateau, but have not yet seen evidence that loss rates will begin to come down. So the only reason for the expected change in year-over-year comparisons is the cadence of how shrink was recognized by quarter in the back half of last year, a period when loss rates increased rapidly, resulting in higher shrink accruals at year-end. Because we've seen more consistent loss rates in 2023, quarterly accruals have been more consistent throughout this year.

Another important consideration is that 2023 is a 53-week accounting year, so the fourth quarter will include an extra week of sales and profits. We estimate that the extra week will add about $1.7 billion in sales and results in about 30 basis points of operating margin leverage on the quarter. I'll note that the extra week will not affect our comparable sales as we base that calculation on periods of equal length.

As I get ready to end my remarks, I want to add my thanks to the entire Target team. From the flexibility they built into our business plans, to their responsiveness in the face of this quarter's top line volatility, and their continued work to enhance our long-term efficiency, they're clearly demonstrating their amazing resilience and showing why we're confident that we work with the best team in retail.

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

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

Before we turn to your questions, I want to pause and reinforce why we're so confident in our long-term prospects, which position us for profitable growth in the years ahead.

Retail is an ongoing journey: The continuous process of listening to consumers and rapidly evolving to meet their preferences. To do that well, you need to have the right assets in place which allow you to quickly evolve as your guests' wants, needs and preferences change. And we're proud of the way we have built and strengthened Target's assets over the last decade.

During this time, we pioneered and built a unique stores as hubs model and invested in new supply chain capabilities to support that model. We invested billions of dollars in our existing store base, modernizing their shopping experience while optimizing those facilities to support digital fulfillment. We opened new locations in markets that had never been served by a Target store, and we continue to evolve our new store design. We developed and launched industry-leading same-day services, which received some of the highest guest satisfaction ratings of anything we do.

Within our assortment, we innovated to make our Food and Beauty businesses even stronger and gained huge amounts of market share along the way. We built an even stronger portfolio of industry-leading owned brands which today generate more than $30 billion in annual sales. We also strengthened our portfolio of national brand partners with Ulta Beauty as the most recent example. At the same time, we developed and launched our Roundel ad business, which leverages the power of our guest base and vendor relationships, to deepen the bond between our guests, our vendors at Target.

We also built and launched Target Circle, which has quickly become one of the largest loyalty programs in the United States, providing us with even deeper insights about our guests and how we can serve them.

And finally, we invested in our team, the best team in retail, by rapidly increasing their hourly wages and the benefits we provide while building stronger pathways to career development and advancement and designing operational processes to enhance their safety and job satisfaction.

With all of these assets in place today, we're not standing still. We're uniquely prepared to navigate into the future, including any uncertainties

So like Brian said, 10 days in, so just getting started with the quarter, but we're pleased with what we see so far. And the exciting thing about the balance of the year is we've got a lot of those seasonal moments to come. And we know our business performs so well across all categories in those seasonal moments.

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

Michael, the only thing I would add as we think about Back-to-School, and particularly Back-to-College, is we expect the shopping season to extend

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

Yes, Michael. I wouldn't have a lot to add. We're pleased with the team's agility and we believe that the environment is rational, and we're continuing to build back our profit in light of the circumstances.

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

And a follow-up question comes on the heels, I think, of the first question that was asked. But wanted to get a little bit more detail about any changes in consumer behavior within the discretionary categories, especially as traffic got better into July? And just how you're thinking of the discretionary categories in the back half of the year.

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

Yes. Kate, I think we've continued to see the same trends over really the last year now. Well, I think we see a very resilient U.S. consumer, and I think so much of that is fueled by the strength in the labor market. We continue to see a consumer who is facing high inflationary pressure in Food & Beverage and Essential categories that's absorbing a bigger portion of their wallet.

I think as they think about discretionary spending, we've seen a rotation in their wallet from goods into services. You're seeing the uptick in travel and leisure, what's happening in entertainment. So those trends, we expect to continue into the back half of the year. We'll watch it carefully. I think our inventory position allows us the ability to chase into demand, and we'll be ready when we see demand changing as we enter the holiday season. But I think the consumer is still taking a very cautious approach to discretionary spending in the goods sector.

**Operator**

Our next question is from Oliver Chen with TD Cowen.

**Oliver Chen** - *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Regarding traffic, what's your forecast for traffic that's embedded in guidance? Do you expect it to continue to be in the negative low or negative mid-single-digit range?

Also, as we dive a little deeper into the discretionary product assortment, what do you see as opportunities in apparel? And how are you thinking about your overall private label assortment in terms of rebalancing and/or the portfolio relative to non-private label?

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

Christina, do you want to talk about some of the plans we have in place for the back half of the year, some of the newness we have in our assortment, and some of the exciting new changes we're going to make from an owned brand standpoint?

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

Yes, I'd be happy to. So Oliver, thanks for the question. On the discretionary portfolio, we continue to build our assortment strategy for the long term. We fully believe in our multi-category portfolio, that it offers us an ability to meet the guests' needs in a variety of different times.

At the moment, given where the consumer is spending, we're, of course, leading on the strength of our Food & Beverage portfolio and Essentials & Beauty, with Beauty really being a highlight with double-digit growth both in Ulta Beauty at Target as well as our core business.

Within discretionary, what we're seeing is that there are things that are very much working around newness and innovation. And as you pointed out, our owned brand portfolio plays a huge role in delivering against those goals. We design, we create, we source, we build assortments that -- where we can control a lot of those elements.

And we've introduced a lot of newness whether you think about, even in the last quarter, taking advantage of the hot trend with family tumblers and introducing that and embedding that in Hearth & Hand. We have just relaunched our own brand, Threshold, which is our signature Home brand, with updated aesthetics and great price points and new branding. We continue to lean on opportunities. You'll see us launch a kitchenware brand later this quarter, which we're really excited about for its value, but incredible quality and durability.

But beyond those opportunities to introduce innovation, it's really taking advantage of the opportunities where guests can do more in one store at Target, and that happens during those seasonal times, where we can leverage both the strength of Food & Beverage as well as Home or Apparel to complete the trip. And Back-to-School, Back-to-College, as Michael mentioned, is a terrific time for us to showcase the strength of our portfolio.

So we'll keep doing what we're doing. We're leaning into different categories, but we're planning appropriately so that we can be responsive in the market.

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

And Oliver, on traffic, as you know, we don't break out a separate traffic forecast. And so kind of the build that goes into our top line guide is embedded in all the things that underlie it. But a couple of thoughts that, one, I'll just reiterate from my comments.

We were pleased with the sequential improvement in July in the quarter, and we saw traffic improve at a slightly faster rate than dollars did as we saw that improvement. And then if you zoom all the way back out, versus 2019, if you look at the first 6 months of this year compared to 2019, I mean, we've got almost well over 20% higher traffic coming to our business than we were pre-pandemic. That translates to 170 million or so more guests interactions with Target in store and online. And so the deeper guest engagement we've built is evidenced by our traffic growth over time, critically important to our prospects going forward.

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

I'll try to tie those 2 questions together. During the balance of the year, you'll continue to see us lean into seasonal moments. We know those are very important moments for our guests, those are traffic-driving moments for Target. And to Christina's point, we'll combine great newness with affordability throughout those seasons.

If you're in our stores today or looking at target.com, you're seeing us lean into this Back-to-School season with great affordability. We'll continue to do that as we enter the Halloween season, get ready for the holidays, combining that great Target newness with great affordability that meet the needs of our guests.

So we'll be cautious as we plan for the back half of the year, but we'll lean into those big seasonal moments where we know the guest expects Target to be there to meet their needs.

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**Oliver Chen** - *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Brian, one follow-up. Inclusivity has always been important to Target as well as thinking about stakeholders. What are your thoughts in terms of appealing to the broad array of customers going forward and strategies there, particularly around LGBTQIA+?

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

Oliver, at the heart of our purpose is our commitment to bring joy to all the families we serve. And that really is all families. So we want to make sure Target is that happy place for all of our guests, a place where they can recharge and enjoy those shopping experiences, and you should expect to see us continue to do that over the years to come.

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**Operator**

Our next question is from Michael Lasser with UBS.

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

The perception is that Target gained a lot of share over the last few years. And now as its traffic is under pressure, guests are either going elsewhere or Target is losing market share. So what levers can Target pull in order to recapture those who would become disenfranchised or are seeking out

I mean, we were heavy last year. That makes us more efficient -- more inefficient in stores when the back rooms are full. It makes us more inefficient in our distribution centers when we're managing a lot of inventory. And so we're seeing the benefits of that cleaner inventories position across the system, and I would expect those benefits to continue.

And we've got a team that's really focused on managing costs and expense well in the current environment. And that work on efficiency, to translate the scale gains we've seen over the last few years into a more efficient operation, I would expect that to continue to be fuel in the quarters and years to come on the efficiency front.

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