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EDITED TRANSCRIPT

TGT - Target Corporation at CIBC Retail & Consumer Conference

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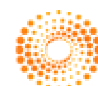

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CORPORATE PARTICIPANTS

John Mulligan *Target Corporation - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Perry Caicco *CIBC World Markets - Analyst*

PRESENTATION

Perry Caicco - *CIBC World Markets - Analyst*

Okay. Obviously we've heard the T-word several times today; and can't pick up the newspaper or talk to neighbors about anything without the conversation about Target. Obviously, we've heard a lot about the stores. I think the Canadian CEO spoke a little bit about where they're going and what they're doing. But we're very actually -- very fortunate today to have, up from Minneapolis, the Target Corp. head office, a couple of members of Target's management team -- John Hulbert, who is in the audience; and our speaker today, John Mulligan, who is the Executive Vice President and Chief Financial Officer of Target Corp. So, John is going to give you a bit of a presentation, and then we're going to have a little discussion afterwards and hopefully begin to get a little more clarity into this interesting growth time period for Target Corp.

John?

John Mulligan - *Target Corporation - EVP, CFO*

Well, good afternoon, everybody. Obviously a very exciting time for Target right now here in Canada. John and I were in a couple of stores that opened this morning; the last four of the first wave of 24 stores that were opened in the Toronto area. And they were bustling, which was great to see. So we appreciate the reception we've received up here in Canada so far.

I'll talk about a few things today. Before I do that, our legal team always likes me to say there will be some forward-looking statements that I'll make today. And those should be taken in context of the risks and uncertainties that are outlined in our SEC filings, notably our 10-K, which we just filed a couple of weeks ago.

Agenda -- the first thing you'll probably notice, there is nothing about Canada on here. We'll talk a little bit about Canada. But Perry assures me he has lots of questions lined up for the Q&A session, and we'll talk a little bit more about Canada specifically then. Three weeks ago, when we did our fourth-quarter conference call, we talked a lot about -- if you get past the clutter of the quarters and our receivables transaction, everything that went on last year -- how did 2012 look versus our expectations going into the year? So, we'll spend a little bit of time on that today.

Talk a little bit about -- with that as context, talk about our outlook for 2013 and what we see happening. And then we want to spend a little bit of time talking about return on invested capital; and that in the context of our various segments and the total Company.

So, with that, we'll start with our 2012 overview. When we started the year, about a year ago at this time, we said a couple key metrics would define the year for our Retail segment. First, comparable store sales of 3%; and then we said we would continue to maintain what we consider to be very healthy EBITDA and EBIT margin rates, so flat to the prior year. And then we would increase our REDcard penetration by 300 basis points. Obviously, that's an important metric for us -- 5% REDcard Rewards, an important sales driving initiative for us, and kind of the center of the plate as we think about loyalty.

When we step back and look at how we performed versus those sales, 2.7% comp. Just a little bit short, 30 basis points short, of what we envisioned going into the year -- all of that driven by fourth quarter. EBITDA and EBIT operating margins, those continued to maintain the very healthy levels. EBITDA, around 10%; EBIT, around 7%; we consider those to be the places we want to operate in, so we continue to maintain those. And, finally, REDcard penetration; that actually accelerated much faster than we envisioned going into the year. And there -- we've talked a lot about this -- the

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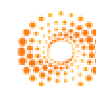

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secret sauce, or the difference, from our view, has really been the debit card. The debit card penetration has grown much, much, more rapidly than we ever envisioned.

How about Canada? Going into the year last year, we talked about four key items we needed to achieve. We needed to build out of the supply chain; build the technology; build the team; and then begin to remodel stores, primarily the ones that we're opening right now. We achieved all four of those objectives, and did so with a great deal of financial discipline. And the team did a fantastic job. We were right where we want to be right now, and did so with $0.48 of dilution versus our goal of $0.50.

And then, finally, cash return to shareholders. At the beginning of the year, we said we would recommend to our Board another annual increase in our dividend, and buy back $1.5 billion, or a little bit more than that, in shares. After talking to our Board they approved a 20% increase in our dividend. And we invested $1.9 billion in our shares; a little bit more than we envisioned going into the year. And that's really reflective of the operating results, as well as our working capital management last year was very strong.

So, with that as context -- or, actually, I should wrap up that part. Put that all together, all of those assumptions, and where do we land? Well, for both GAAP and adjusted EPS, and adjusted EPS is results from our US operations, we exceeded the top end of the range for both of those for the year. So, very strong year financially; and, importantly, left us right on track for what we consider to be our long-range financial goals, which is $100 billion of sales driving $8.00 of EPS by 2017.

With that as context, we'll talk about 2013. And the first thing you'll notice here -- US segment. It doesn't say the US Retail segment or US Credit Card segment, which we have reported historically. It says US segment. And here we closed our receivables deal, or sold the receivables to our fine partner, Toronto-Dominion, about two weeks ago. And in doing so, we've said that we will no longer report a US Credit Card segment. So that segment, the profits from that, net of operating expenses, will be recorded as an offset to SG&A in our US segment. So they'll both be consolidated together into one US segment.

So, of the US segment -- a couple of key variables for this year -- comp store sales, 2.7%, essentially right on what we did last year; and then EBITDA margin rate at 10.3%. And that looks like our EBITDA margin is actually expanding a little bit. And there is kind of an asterisk on that, and you can see that there. 30 basis points of that EBITDA margin is really just from the consolidation of that profit-sharing coming into the retail business. So the underlying retail business, apples to apples, is right at a 10% EBITDA. And, again, that's where we expect to be through time.

Canadian segment -- we said $0.45 of dilution this year. And when we talked about that on the conference call, we got some questions afterwards. John Hulbert has taken a number of questions from people. That seems very high to some individuals. They talked -- referenced our guidance. And I find that interesting, because we've never provided any guidance. But what we talk to them about is -- they talk about, you're opening 124 stores. They're going to be generating profit. Why would the dilution be so close to what it was in 2011 -- or 2012, excuse me.

And a couple things going on. First, if we step back and look at how we are opening these stores -- we just opened 24. We hired teams to staff the stores months ago, and they have been training and getting the stores ready. And right now, obviously, they're working, and they're productive. We have positive gross margin in those stores. But we already have the team hired and they're working for the wave two of stores. And we've begun hiring for wave three. And that will go on throughout the year. So there is a significant amount of startup expense going on.

Now, having said that, $0.45 is still a little bit higher than even we assumed a year ago, or even two years ago, when we got into this proposition. The difference between our assumptions today, and where we were then, is all attributable to depreciation. If we look at EBITDA now versus a year ago, our projections; and two years ago, our projections; essentially right on. So the entire delta from our own internal projections is related to depreciation. Two drivers of that. It became pretty clear, very quickly, once we got into this endeavor, that we were not going to be able to rent all of our distribution capacity that we would require. And so it became clear that we were going to have to build three distribution centers. We did so -- several million square feet of facilities; two of them are operating. The third will be operating soon. But that was hundreds of millions of dollars of capital.

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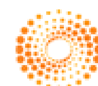

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The second increase related to store expansions. We thought maybe four or five of these stores, we'd be able to expand, if we worked hard with our landlords. We got into talks with our landlords -- they've been great partners. We've actually been able to expand 40 of those stores. And each one of those expansions, and the distribution centers, those are individually underwritten. So the economics need to be positive for us to do that.

Then there are some stores where we have the opportunity to expand, and we've chosen not to because the economics didn't make sense. There wasn't enough volume in the store to have it make sense. So, we intend to see the positive economic benefit through time. But, of course, the depreciation and amortization comes when it comes, and that resulted in dilution somewhat higher than what we expected.

Finally, we want to remain disciplined on cash returned to shareholders. Once again, we're going to recommend to our Board increasing our annual dividend. That will mark the 42nd consecutive year that we will have increased our annual dividend. And then invest in share repurchase, and here we said $2.1 billion or a little bit more. That's inclusive of $600 million; that's the equity that was freed up upon closing the receivables sale. So in total, $2.1 billion of share repurchase for the year.

Wrap that all together, and this plan keeps is right on [track] to our long-range financial plan. You'll notice I don't have an adjusted or GAAP guidance here, and that's really because we're in the middle of a tender offer right now. And we said on the call, we'll be back when that tender offer completes. We're retiring some debt, post- the closing of the receivables sale. We'll be back after that closes to provide a little bit more information about where we think GAAP and adjusted EPS will land. But, importantly, right on track for $100 billion of sales and $8.00 of EPS by 2017.

Now I want to shift gears a little bit and talk about return on invested capital, something that is very important to us. As we think about investments, we think very hard about how we are going to improve return on invested capital as we do so. However, if you are a casual observer of Target, and you are simply looking at a consolidated view of our Company, you might come to the opposite conclusion, given many of the investments we've made over the past couple of years, so we'll take a look at that first.

And we'll start with the Retail segment in the US, obviously the biggest portion -- biggest driver of our return on invested capital is our US Retail segment. Shown here is sales per square foot. And this is really just a proxy for asset turnover, asset utilization. But if you look at our balance sheet, this is a really good proxy for our asset utilization.

You can see it peaked in 2007 and then contracted meaningfully through the financial crisis, as all of retail in the US contracted meaningfully throughout the financial crisis. 2010, 2011 and 2012, we've been very focused on driving same-store sales. Our store remodel program, 5% Rewards, are both designed to drive store productivity. And you see the result of that. Our sales per square foot have been coming back. Given that we've said we think our operating margins are right where they need to be, the best way we can drive return on invested capital in our US stores is by driving sales per square foot. And the two are very closely correlated.

So, we layer on our after-tax return on invested capital. And you can see it's not perfectly correlated, but very highly correlated. And especially over the last several years as we have increased our sales productivity, our return on invested capital has improved. And, in fact, in 2012, despite the fact that we have not gotten back to the same sales productivity, we had a return on invested capital that exceeds where we were in 2007.

Now, if you're taking the bear case on Target, you'd say, well, there's a numerator and a denominator here; and you guys are just -- you're not investing in your business just to drive return on invested capital in the short term. I think if you look back on what we've done the past several years, that's obviously not the case. We've invested billions of dollars in going back and remodeling all of our stores as we've gone through the PFresh store remodel program. And our store base now is as fresh as it has ever been in our history.

Similarly, while 5% Rewards doesn't have an invested capital component to it, we've invested hundreds of millions of dollars in markdowns to drive profitable sales. And I think those are two great examples of how we think about investing to drive improved return on invested capital, and you see that here.

Now let's take a look across our other segments, and the total Company. Here you see the same chart for our Retail business. US Credit Card segment -- a lower return on invested capital; but, of course, that makes sense. This has a much lower cost of capital. As we've talked about the receivables

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deal that we just completed, we've said we believe that asset was funded about 90% by debt, about 10% by equity. So the cost of capital was much lower. And over the past several years, it has certainly been well below 5%.

And, finally, we have Canada -- when you invest billions of dollars of capital, report losses in your P&L, you drive negative return on invested capital. That shouldn't be a surprise to anyone. Put all three of those together, and we get the bright red line. And this is what it looks like as a total Company, consolidated. And here you can see over the past couple of years, our total Company return on invested capital has come down.

And, again, I said if you are a casual observer of Target, and just did a returns on a total Company level, you would kind of scratch your head and say, what are these guys doing? And, in fact, if you simply washed away Canada, you'd see our return on invested capital rising over the past couple of years, commensurate with our Retail business.

So, where do we go from here? The Retail business, given what we're investing in -- 5% Rewards; store remodel program; multichannel -- we expect our return on invested capital to continue to increase in our Retail business out through 2017. Two weeks ago, as we sold the receivables, we moved from a return of 6.4% in our Credit Card business to essentially an infinite return. We continue to receive a substantial profit sharing income from Toronto-Dominion, and have virtually no capital invested in that business at all.

That leaves us with Canada. This year in the fourth quarter, we expect dilution to move to accretion, and next year to be profitable for the full year. And that will continue to grow out through 2017; so that, through time, Canada will have a very similar return on invested capital characteristic to what we see in the US. That leads us to a total Company return on invested capital which we expect to meaningfully improve over the next several years, as Canada improves; and with, of course, the benefit of credit.

So, now, I have one more thing I thought I'd share with you today. Something a little bit more entertaining, not that everything I just talked about wasn't completely riveting. And that is, we get asked -- John and I have been asked many, many times -- you guys are spending $10 million to $12 million a copy for each one of those Zellers stores that you acquired in Canada. What are you spending that money on? And that doesn't include expansions. Expansions can be 50% or even more than that, depending on what we're doing with the store.

So, how do you spend $10 million or $12 million on each of these stores? So what I wanted to share with you -- the Square One store in Mississauga, it's a very large store and a very large mall; opened this morning. And we kind of have a time-lapse photography video showing you what's happened in that store, and what we've done. And you'll see, at the point we pick it up, the store has been completely gutted, and I mean completely. And you're looking down into a hole, which is where you'll see they assemble what we call a Vermaport, which is really just a high-tech word for a cart escalator, and the human escalators. And you'll see the amount of work and refurbishment that has gone into these buildings.

So, of course, if we continue to run this -- John I were in this store this morning -- you would see lots of guests running around, and a very full and active store. Along with redoing the inside, as we looked at the stores, we think it was equally important to redo the outside, and make them feel like they were part of the communities in which they operate. And so, while all that was going on in the inside, this is what was going on on the outside.

And so you can see why we are excited about being here. All of these stores, while they have been here for a very long time -- from our perspective, as we walk them, they look like brand-new Target stores, commensurate with anything we've ever opened up in the United States. And, as I said, we're very excited to have the first 24 open, and look forward to the subsequent waves, the next four waves of stores, as we move across the rest of the country.

And with that, we'll move to the Q&A portion.

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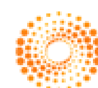

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QUESTIONS AND ANSWERS

Perry Caicco - *CIBC World Markets - Analyst*

All right. Thanks, John. Maybe we'll start with -- we're going to talk a little bit about Canada. So we just want to talk about your assessment coming into the -- of the Canadian marketplace. Clearly, it's not a carbon copy of the US. You've had to adapt. When you looked at the competitive landscape in Canada, and the consumer landscape in Canada, what are the things you had to take into account in order to come up with the models that you've come up with?

John Mulligan - *Target Corporation - EVP, CFO*

Yes, I think the competitive landscape, it's really interesting, because it is a pretty big contrast from the United States, from our perspective. There is, obviously, a lot less retail per square footage, per capita, in Canada; and that would lead you to believe a little bit less competition, which perhaps is true. But the reality is, when you look across the spectrum of the operators -- very, very strong operators in Canada.

You look at the grocery operators, -- very, very strong. Much stronger than what we see in the US. Canadian Tire is an outstanding operator. So, some people that really know how to do retailing, so that makes the competitive landscape very robust. And then there is some of our similar US competitors -- Walmart is formidable wherever they operate; Costco is an outstanding company. They're really good merchants, really strong.

So, when we look across, we recognize that this is an area with very strong competitors. And we need to do things that we do well, extremely well. And I think as we think about coming into Canada, our approach is very similar to what we do in the United States. And all of that, for us, starts with Expect More, Pay Less. That's our brand promise. And that's where we start. The Pay Less part of that is, the pricing has to be right. We need to be priced on our competitors for like goods. And so we endeavor to do that constantly. We do that in the US; we'll do that here. But the really important thing for us is Expect More. And that's about differentiation. And we think about that in the style categories; certainly in home and apparel; where we have very differentiated assortments. And we bring significant sourcing and design capabilities to those businesses. That's a key differentiator for us.

But we have to think about that across the store as well, in other parts of the business. In things like the Justin Timberlake CD. John and I talk a lot about CDs, because they are a great example; very simple example of differentiating. Nobody really buys CDs anymore. Probably most of you haven't bought a CD in a long time. But I can tell you, the last several Taylor Swift CDs, and the Justin Timberlake one, are the best-selling CDs we've ever had in our store, ever. And all we do is, we add a couple of tracks. We add two tracks from the artists -- obviously we work with them hard on this -- but we add two tracks, and that becomes a differentiated item in our store. And that's how we think about differentiation. And it has to be across the entire business. So, as we come here, that's the same kind of thing we want to bring.

Perry Caicco - *CIBC World Markets - Analyst*

And what did your research turn up in terms of the change of the differences in consumer behavior, Canada versus the US?

John Mulligan - *Target Corporation - EVP, CFO*

As we talked to Canadian consumers, the number-one thing we heard, loud and clear, over and over and over again, is we want Target. We don't want Target light; we don't want Target Canada; we want the whole Target experience. We want the way the store looks; we want the bright aisles, great service; we want the home, apparel; they wanted the whole package. Does that mean we won't evolve as the Canadian consumer evolves? Absolutely, we will.

In the US, 25 years ago, we used to sell tons of motor oil and have a much larger automotive section. We've gone away from that, obviously, in the US. And we didn't bring that here, obviously. So we'll evolve as the consumer evolves. But the number-one thing we want to do is bring Target, because that's what we heard from our guests.

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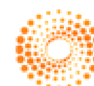

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Perry Caicco - *CIBC World Markets - Analyst*

And if so you've had a few stores open now for a few weeks. And you took a few shots to the chin in various media outlets, and social media outlets, for out-of-stocks, and pricing differentials with the US. And I guess it was pretty difficult to soft open the most anticipated retailer in Canada in a decade. Tell us about your first few weeks' experience here.

John Mulligan - *Target Corporation - EVP, CFO*

Yes, I would -- the first thing I would say is, we have learned something I think we have known for a long time -- our marketing team, if you give them two years, they are really good at generating buzz and excitement and anticipation. And they did an outstanding job. And there was -- we have seen overwhelming response as Canadian consumers have come into the store. And we're thrilled by that, because that's a great problem to have, is more people than we expected.

We talk -- down in the US, it's Black Friday; here, Boxing Day. It's like having that every single day, all day long. So it's been quite remarkable, the response. I think as we thought about opening, the staggered opening was our plan all along. We needed to get the first three stores open. You can do all the testing you want of systems and supply chain in the labs. Ultimately, you need to get the real world working.

And so getting those three stores opening; let our teams, which is 99% Canadian team members who haven't worked in Target stores, letting them get used to things. And that's gone really well. We're very pleased. I think that supply-chain efforts, we work through I think -- if we had had a normal amount of opening, we would have worked through those very rapidly. But combined with the overwhelming response, it's taken us a bit longer than we might like. But we feel very good about where we're at.

The stores today looked outstanding, in-stock. And then pricing, we've said we want to be locally competitive to the local market. We all operate in the same environment here, and the environment is a little bit different than the US. So, we talk about the difference between US and Canada pricing, but we will be locally competitive here, just as we are in the US.

Perry Caicco - *CIBC World Markets - Analyst*

And what about the differences in the employee base? You've hired and trained thousands of Canadians in a very short time period; a bit of a different experience for you. Tell us about what you've observed in the Canadian employee base?

John Mulligan - *Target Corporation - EVP, CFO*

Yes, we've been thrilled with the team members we've hired here. I think the only thing you can say about them is that they just don't have Target experience. They haven't done this before with us. But we're thrilled. We were at the store last night and again this morning and yesterday; and I was here a week ago, and two weeks ago; and the team members have been outstanding. We've asked a lot of them -- again, they're learning as they go along here and learning new systems and new ways of doing things. We've asked a lot of them, and they've been just incredible. We're thrilled, and the service has been incredibly high, very friendly. All the things that are part of our brand and the service nature of our brand, we've been able to bring to Canada, so we are very excited about that.

Perry Caicco - *CIBC World Markets - Analyst*

Perhaps a little granular -- but both in Canada and the US, when you bring employees over from other retail chains, what's the challenge? Do they have to unlearn things that they learned at other retail chains, and learn to Target way? And what is that Target way?

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John Mulligan - *Target Corporation - EVP, CFO*

Everyone has their own way of doing things. I think the one thing we probably consistently hear -- well, we are -- John and I joke about this -- we're about as a centrally controlled company as exists. We planogram everything centrally. And merchandise -- we know where it's going to go; we have it fit on the shelves, all that -- so that you get the same experience no matter which store you're in. You get the same Target experience. That's really important to us.

And I think we hear from team members we hire from other retailers that there is perhaps a little bit more latitude in the stores. And that's just not how we operate. We like to execute, again, so that every time you go in a store, regardless of the store, you go into, you get the same experience, same brand experience. We hear that from time to time, but I think, like everybody, there are different ways of doing things, and part of it is just learning how we do things.

Perry Caicco - *CIBC World Markets - Analyst*

And you do have a reputation as a highly centralized retailer, but you've got a Canadian division now. How do you split, in a sense, the responsibilities? And how do you let the Canadian team be Canadian, without having to run to Minneapolis with every question?

John Mulligan - *Target Corporation - EVP, CFO*

Yes, I think that started on day one. Tony -- many of you may have heard Tony speak -- Tony Fisher, our President here. He moved here really before we had a headquarters building. And he jokes, he was the guy turning on and off the light because he was the only person in it for a long time. The rest of the team moved here -- the head of stores, the head of merchandising. And eventually those will become Canadian-filled positions. But the team moved here with the intention that they need to build a headquarters team here to run a Canadian business from Canada. And I think that's been part of how we've run this from the get-go. And they know the guard rails about Target, and our brand, and how we're going to operate. But within that, they need to make this a Canadian business run by Canadians. And as I said, 99% of the team is all hired locally here, and so they bring that to us. And that's absolutely our intent.

Perry Caicco - *CIBC World Markets - Analyst*

John, when you finally get to open, build and open a greenfield store -- 130,000 square feet, the real size of Target -- what will we see in that story that might be different than what you've had to jam into some of these locations?

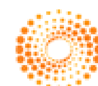
John Mulligan - *Target Corporation - EVP, CFO*

Hopefully the feel is the same, because we're really proud of the stores; we think they look fantastic. I think a greenfield site, you'll see us a little bit less tinkering with the adjacencies. We'll get the adjacencies; we get to decide how that all looks, with some of the interesting layouts and the way the back rooms worked. The store we were in this morning has eight back rooms. So they are very complex, because they're older buildings. We get to set it up just the way we want.

But I don't think you'll see significant changes in the assortment. We got the assortment we wanted in the stores, even though they're smaller than what we have today. There just may be more square footage or longer runs of the same assortment. So we feel great about the way the stores look. And I think with the greenfield sites, you'll just see it a little bit -- the back room will be easier to navigate, really.

Perry Caicco - *CIBC World Markets - Analyst*

And PFresh has been a big hit in the US, a big driver of sales for you. Do you see that as being applicable to Canada at one point in time?



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John Mulligan - *Target Corporation - EVP, CFO*

I think food is important. And it's important to us because it's a frequency driver. It brings people in the store. That's how we think about it. And our approach to food in the US evolved really over 15 years. John and I joked -- we were both in capital investments in the early 2000s. And in 2004 or something like that, we did something called right-sizing. And we went back and did a mini version of PFresh. We didn't have big name for it or anything, but we went back and doubled the size of food.

And then, of course, through the PFresh remodels -- where we run around, really, the entire store and remodel it -- we doubled the size again, roughly. And that's important for us because it drives frequency. In Canada, food is very important, obviously. And we set a little bit different playing field here; very strong grocery operators. But still very important that it's part of a convenience trip. You know you can get food. And we've been blowing out of milk -- holy cow -- selling lots of milk. But that's important because in order to drive frequency and get that midweek trip, food is an important element.

I think the thing we benefit from here in Canada, more so than perhaps the whole chain in the US, is -- those top 100 Zellers sites are outstanding sites. They're in great malls, so they are high frequency sites to start with. So we benefit from that traffic naturally. And so, while food is an important component, we perhaps don't need the food as much to drive the frequency, because we are already in those high frequency locations.

Perry Caicco - *CIBC World Markets - Analyst*

Do you think you'll have to adapt the store very much when you go into Quebec?

John Mulligan - *Target Corporation - EVP, CFO*

I think we'll adapt it a lot. Obviously, the language, the signage will change; the team members; our store leadership there, very different. So, our pharmacy operations will be a little bit different there. So, recognizing -- there's a reason that Quebec comes late in the opening cycles. There's a lot for us to learn. And we've spent a lot of time trying to learn everything we're going to need to do to enter there appropriately, and we continue to learn.

Perry Caicco - *CIBC World Markets - Analyst*

There's been a lot of talk today on data mining, customer databases, et cetera. REDcard has been, obviously, a hit you in terms of the -- what's in it for sales. So, a couple questions on REDcard. One, what you think about the take-up in Canada, and how has that been going? And do you think that will be, obviously, a core part of the offering here? And, secondly, how fast can you get at the data that REDcard will provide you on Canadian shoppers?

John Mulligan - *Target Corporation - EVP, CFO*

REDcard, really important here, just like it is in the US. And like I said, the REDcard for us -- the Rewards program -- is really the center plate of our loyalty program. That's where it all starts. In the US, we have added on other features to that. And through time, I assume we'll look at what we do here. But an incredibly critical part of our loyalty program is 5% off.

We're off to a great start here. It was interesting, before we even came here, there was 30,000 or 40,000 Canadians who had REDcards in the US. They were obviously coming often enough to use them there. But we started the REDcard applications a little over a month ago, maybe two. I'm looking at John -- he doesn't know. But we've had significant take-up.

I think the one thing that we need to work through is we can't do in-line or in-register applications right now, so we need to work through that. That obviously increases our ability to grow the REDcard rapidly. But we're very pleased with where we are, and it's incredibly important for us.

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I think, on the data side, for a long time our guests have told us that if we are using the data to provide them valuable offers that are relevant to them, they are thrilled with that. And we've worked on that for a long time, to provide them relevant offers. In the US, we were one of the first to have mobile couponing, and to be able to scan your phone at point-of-sale with offers that were relevant for our guests.

So that's important. And all of that, obviously comes from all the data that we have about our guests. And, similarly, in Canada -- we want to be able to provide relevant offers to our guests. And if you do that, that's valuable. But we take the privacy issues -- and being sure that we are secure, and using that data appropriately -- very seriously at Target.

Perry Caicco - *CIBC World Markets - Analyst*

Strategically, how important is transactional e-commerce to the future of Target? How do you look at that? The US is a more developed e-commerce market than Canada by quite a lot. Amazon is obviously a bigger player down there. There's a lot of price transparency issues, and price comparison issues. What's your position in e-commerce in the US, and how do you see it? And do you ever see it being applicable to Canada?

John Mulligan - *Target Corporation - EVP, CFO*

Yes. I think, first in the US, e-commerce and multichannel is -- that's where our guest is. That's where she is today. That's how she shops us. So I think anyone that -- I don't think there's anybody that would say that's unimportant today. It's critically important, because it's how we have to operate. I think as we think about multichannel, we think about a couple of things. One, Amazon appears to be racing to what we already have. They continue to build distribution center after distribution center; we have 1800 distribution centers. We haven't utilized them that way, and we've spent 50 years refining -- bring it in the back door; move it quickly; and get it out the front door. And now we need to figure out how to do that in a little bit different way. And we'll run some pilots to do that. But we have that distribution capability available to us. And it gets back to, again, asset utilization and driving more sales through our stores.

The other thing we think about is mobile. Our guest -- she already shops our store with her phone on. She's primarily using either a Target app or Target.com. She's got her list. She's got her coupons -- but utilizing that as a way to communicate with her through social; connecting that to our website, which we already do today; all through the mobile device. Incredibly important. As we look at our digital traffic, already more than one-quarter of our digital traffic is through mobile devices. So she's already there. So mobile is the way -- the direction we are heading in tying that all together. Incredibly important for us.

For Canada, we do think e-commerce is important here, and will continue to grow. For us, right now, well, we spent the last two years trying to get stores open. We're very focused on getting another 100 open this year. So we're working on that. And we continue to evaluate what we call the day-two priorities, and e-commerce is one of those. And we'll figure out when it makes sense for us to introduce e-commerce in Canada.

Perry Caicco - *CIBC World Markets - Analyst*

And in the US, you have been experimenting with some difference store formats, most notably smaller formats. And the history in Canada of almost every major US retailer is, you started it out here with large formats and eventually downsized and went to smaller formats. So, talk about your format evolution in the US, and what that means for Target. And then talk about how applicable that process might be, once you're up and running in Canada, a few years down the road.

John Mulligan - *Target Corporation - EVP, CFO*

Yes, I think in the US, in the last year, we opened up five City Target stores. City Target stores -- for us, they range between 65,000, 85,000 square feet; so still relatively large stores. We are very excited about them. The interesting thing is, they operate very similar to our normal urban stores that we have. We have many urban stores that are in urban areas. But getting 130,000 square feet in the US, just like in Canada, is very difficult.

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So, how do we get a smaller format that can deliver that same guest experience? We spent several years testing to reduce the assortment without our guests knowing. And we tested it in three stores in the US, three full-sized stores. We reduced the assortment by, I think about 40% to test that and see, what did they notice? What did they not notice? What did they care about? What are walkaway items? What aren't? So, lots of thought went into that.

And the logistics of the City Target stores is very different. So, for us, this is about a lot of learning -- much higher traffic, much lower tickets. And then, how do we replenish that, when you can't back up a 52-foot trailer because you're operating in an urban area? How do you replenish that store to keep it in stock? That's what we've been working on. And we're going to open three more of them this year.

And then, we've said all along -- we'll pause. We're pretty thoughtful about things like this. So we're going to pause in 2014, and evaluate where we are at. But we're excited about where we are today with City Target. I think as we think about formats, for us it's really about -- our CEO would say it's about being nimble, and being able to adjust the format to what we can find for space, and the surrounding area will support, the trade area will support.

So, will we try something smaller? Probably, at some point, we'll try something smaller, and see how that works, too. So I think it is about us having a multiple amount of formats that fit the trade area, and the real estate we're able to capture.

I think, for Canada, the same will be true. That'll be down the road; we certainly have our hands full right now. And we'll need time, as I said, to refine and get the P&L operating the way we think it will, ultimately, in Canada. But we'll get there. And then we'll evaluate our other opportunities for City Targets or whatever else comes.

Perry Caicco - *CIBC World Markets - Analyst*

And can you describe Target in Canada five years from now; what it looks like -- how big it is, and how profitable it is, relative to the US business?

John Mulligan - *Target Corporation - EVP, CFO*

Yes. We've said, in five years, in 2017, our expectations -- probably about 150 stores or so. And that's 124 this year; somewhere north of five to 10 next year; and then maybe five or so, each of the following three years. So about 150 stores. We think $6 billion, perhaps a little bit more in sales will be generated by those stores. So, sales per store, a little bit higher on average than what we see in the US.

And then, we've said our EPS goal is $0.80 of EPS, driven by Canada from those 150 stores. And we think all of that is very achievable. That's kind of what we see. And it will look a lot like -- we think it will look a lot like it does in the US; similar market share as we enjoy in the US.

Perry Caicco - *CIBC World Markets - Analyst*

Good. John, thank you very much.

John Mulligan - *Target Corporation - EVP, CFO*

Thank you.

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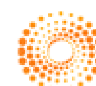

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