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PRESENTATION

Robert Ohmes - *BofA Merrill Lynch - Analyst*

We're going to get started. I feel very lucky that we were able to get Target to do our conference this year, particularly with the timing of their Analyst Day yesterday. I thought they did great, it was a great presentation they gave, and they're giving us an opportunity for follow-up questions the day after.

So, most of you probably know John Mulligan, sitting to my right, the CFO of Target. And I think a lot of you probably know Hulbert very well from IR at Target.

So, with that, let me let John make, maybe, some very brief comments, but then we'll go right into Q&A.

John Mulligan - *Target Corporation - EVP and CFO*

So, great to be here this morning. I think we had a good day yesterday. We talked a lot about where we're headed as a company. I think we talked a lot about our five key priorities, and those are the things we're going to focus on, and Brian and I talk all the time. We're going to probably bore you to death with the same five things over and over again for a few years here.

Driving digital sales -- incredibly important. The digital sales are nice, but really that's about engagement with our guests. Our guest just becomes more engaged.

Signature categories -- and that's about driving the categories that the guests told us they expect us to deliver, and how we can differentiate from some of our other competitors, and that's around style, incredibly important there, with apparel, home, beauty, areas where, again we can differentiate, given some of the capabilities we have.

Baby and kids -- those are really ways that the guest kind of enters the relationship with Target, and then maintains it, as we go through kids. So, really important.

And then, given the nature of our guests, wellbeing, another one that's really, really important for us.

Also talked about location, personalization, and that's just about delivering what the guest wants when they want it, in the store or online, being able to do that, and the data and analytics that fit behind that.

And then fourth, again, going where the guest is with urban locations, either CityTarget a little bit larger format, smaller than our existing stores, but a little bit larger, and then TargetExpress, much, much smaller.

And then fifth, a way to fund all of it. We think there's a significant opportunity over the next couple of years to take out $2 billion of expense, 25% of that in cost of goods, the rest of it in SG&A. Really, a way for us to become leaner, more efficient, and more agile as an organization, and fund all of those investments.

And so, look forward to taking your questions today.

QUESTIONS AND ANSWERS

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Great. I'll kick it off and please raise your hands out there if you have any questions.

There was -- John, I forgot the exact numbers, but I think part of the long-term plan had some reductions in expenses in certain areas, a big expense reduction number. And can you remind me the -- sort of the corporate part of that, and is it -- are you -- but I think you're actually also hiring people at the same time. And I got a little confused. Are you reducing the size of corporate? Or is it staying the same? And can you maybe just give us a little understanding there?

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Sure. I think, broadly, we looked across the entire enterprise at expense, and I think a little bit of this is lessons learned from what we do in the stores. There, we're very efficient, constantly driving productivity, investing in that with technology to ensure we're taking out work or helping our store team members become more efficient.

And so, there's lots of opportunities. I think the headquarters kind of became the focus yesterday, because we talked a lot about simplifying and becoming more efficient in how we work, and I think that is important for us, to move faster, become more agile, more efficient, and push accountability down in the organization.

We talked yesterday about there's going to be -- we said the word, thousands, of positions at headquarters that will be eliminated. I think your point's right on, Robbie. We're -- there's some other -- we'll continue to invest. We're going to continue to hire data and analytics individuals, engineers and technology, places we have to invest. There's some places in risk we need to continue to invest.

But net/net, when all is said and done, we will have a smaller, leaner, more agile headquarters or central operation to support both our channels.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

And then another area, and this is -- I know Kathee is not here, but a bit of -- we'll give you a shot at it. Food -- so, food is not one of the five, but food is still going to have changes. I remember beer. I remember Greek yogurt. I remember candy.

John Mulligan - *Target Corporation - EVP and CFO*

I remember beer.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

And I -- and I think healthy snacks, and I think it was one or two other -- can you help us sort out how we should envision, at least from right now how you think food's going to evolve.

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think food is -- when you step back from all of it, kind of classic -- really, frankly, classic mistakes, right? We sit in the middle. We're not really special, and we're not a full grocery.

And so, we're sitting in the middle of no man's land, and our guest says that. They're like, you're not delivering either for me.

So, been a lot of research, lots of conversations with our guests, and the clear message is, look, we expect to be specialized, just like the rest of the store. It should be more like the rest of the store.

So, we're not going to be, at least today -- Brian said it yesterday, never say never. But we're not going to be the broad-line grocery store in most of our formats -- SuperTarget a little bit different.

And so, in food, we heard that feedback very clearly. Be more specialized, and there it is about wellbeing. Drive the assortment through wellness and wellbeing, and that's why yogurt, healthy snacks, some of the other things we talked about, along with improving our perishable.

And so, there's a lot of work to do in food, a lot of testing going on. Kathee talked yesterday about testing in Chicago. There's a couple other markets where we're doing some tests around the supply chain that sits behind our food offering. But it is about moving toward wellness, and then the other thing is, tying it to the rest of the store, and really being able to connect food to occasion. And we can put together a whole dinner party for you. We can put together your whole Christmas for you with everything else we offer in the rest of the store.

And so, tying food into the rest of that, and really being able to offer something that a grocery can't offer, right? We can give your dress. We can give you the invitations. We can give you the table top. We can give you all the decorations, and the food. That's something that we need to focus on, as well.

So, a lot of work to do in food. And that'll be -- that'll be the longest journey. We talked about that yesterday. A lot of testing in 2015.

We'll try -- well, we won't try -- we'll make some short-run improvements here in our supply chain to improve quality and freshness, but, really, that'll be something more 2016 you'll start to see changes. And that's a several year journey to improve our food offering.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

And then, another follow-up question from yesterday, in terms of the guidance you gave on the same-store sales side, and sort of maybe tie this in there with some positive things I think you guys were saying about driving traffic.

The -- can you help us sort through, when we think about the 2015 guidance, the -- is it a consistent sort of comp, quarter-to-quarter, that you're shooting for? And, maybe as we look at, say, the first quarter versus other quarters with their -- are we beyond the easy comparisons from the credit breach? And so, what gives the confidence in what the actual underlying traffic trend is?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think two things kind of opposing each other here, as we think about it. One, as you look at the year last year, certainly our comps improved every quarter last year, and culminated in a very strong fourth quarter, very strong traffic in the fourth quarter, both in-stores and online, but notably very strong traffic in stores. So, comping against that, we would expect as we go along those comps become more difficult to cycle against.

The other part of, though, as we talked about all the initiatives we're doing the further we get into the year, the more we will have, right? When we think about the signature categories, when we look at the back half of the year, some of the product that's coming in home. Some of the changes in apparel, we're really excited about.

We're also rolling out the new merchandising fixtures package in apparel, with manikins. We look to roll out, probably by some time late in the fall at least 250 stores, the new home set.

So, there's some things swinging the other way that as we get further into these initiatives, they'll begin to drive traffic. So, it's a little bit of both. We think that, net/net, probably relatively consistent as the year goes on, from a comp perspective, but we're really excited as we go along here -- and I think the point we tried to make yesterday, and, hopefully, did, this is going to take some time. All these initiatives will take time, and we're just at the very early stages.

And so, as we implement them, we think we'll start to see traffic build. We'll see the digital channel continue to grow quickly, but in store, we'll start to see traffic build as the year progresses on into next year.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

We're going to make sure there's no questions out in the audience.

John Hulbert - *Target Corporation - IR*

We answered all the questions yesterday.

Unidentified Audience Member - *- Analyst*

The -- and I got to your meeting a little late, but REDCard, can you help us understand how REDCard is going to stay the same, and where it might transition or be different? I think you guys talked about maybe incorporating it more into some of your mobile initiatives and things like that?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, a great question. I think we love REDCard. We think it's a great product for us. The guests respond to it. Clearly, there's no getting around we saw the impact of the data breach on the REDCard growth, particularly on the debit side. We've cycled past that now, and we're starting to see growth resume again, as we talked about, and that's great to see.

But I think, more broadly, the question for us is around what are we doing in loyalty, and historically, the REDCard has been the focus of our loyalty program. That's tender-based, and the reality is that some of our guests, some consumers, they just don't want tender to be the thing that ties them to a store.

And so, we're doing some tests in Raleigh-Durham right now around what we call REDperks. It's a non-tender-based loyalty program, and, really, the challenge for us, what we're thinking through and testing through, is how do we create a broader loyalty umbrella, because we had the REDCard. We have pharmacy rewards. We've got the Cartwheel that looks a lot like a loyalty program, because very focused offers there, and then we've got REDperks, which will be the umbrella. And that's what we're trying to test through, but we think REDCard is an important piece of that, but we think it needs to be broader than that, again, all with the intent to communicate to our guests, become much more personalized, and much more engaged with them as they engage with Target.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Making sure there's nobody out there with -- Okay, we've got a question.

Unidentified Audience Member - - *Analyst*

Thank you. Just a follow up on your loyalty initiative. Could you give a sense for the timeline for the rollout? Like, when do you expect to have initial results from a test, and when would you see a full rollout of that, and also, more broadly, how would that be differentiated from the other non-tender-based loyalty program that have been introduced in the marketplace, TJX, Kohl's, and others.

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think that's the question, [Rae]. I would tell you, first, from a timing standpoint, we're very early. We just put it in the Raleigh-Durham market in late January. So, it's only been there five, six weeks or something like that. So, we're very early.

There is great takeup, which we're excited about, but to see the behaviors and I think part of it gets to exactly what you said. What are the offers? How do we make that different from what everyone else sees, and it's not just another hi-low loyalty program. That is the challenge for us.

So, we're testing some things, and I don't think you'll see us go really fast here. There's a lot for us to learn, and, again, how we connect it all back to the several pieces we've got, REDCard, pharmacy rewards, Cartwheel. So, there's a fair bit of testing that we're going to need to do here, and I wouldn't expect to see us doing anything dramatic, certainly before next year, because I think we have a lot of work to do.

So, I don't have the answer to your question about how it will be different, because we're testing into that today. What kind of offers makes sense, and how can we engage that guest in a different way than others do? And that's what we're working through right now.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

I had another question just on the -- this is sort of historical or maybe to give us context. So, Brian Cornell said a lot of things, but I remember, towards the end, when he was talking about the merchandising approach, and I don't want to -- I don't remember exactly what he said, but it was something about we want to make merchandising decisions that are sustainable. And I guess my question is, can you just help us understand the sort of change in the merchandising approach? What would have been like the barrier in the past to Kathee or the merchandising team making good and sustainable merchandising decisions that's not there now?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think if you look back at when we were on top of our game from a merchandising perspective, there was a fair bit of risk-taking that went on. And not big risks, just lots and lots of little risks across the Company, and putting things into the store that were a little bit different, and I think we lost some of that.

As we look back, the way we behaved, there was a great appetite for very large risks, and we took several large risks, trying to convert the website in two years when everyone told us three. And the way we approached Canada was a large risk.

We got comfortable with that, but we got very uncomfortable with taking smaller risks. And I don't know if you saw GE's Annual Report. I love the way they put it, if you want to see where things go to die, look at the second or third-level review. That's where things go to die.

And we have a little bit of that, and it's get back to being leaner and more agile. And I think our merchants got put through a lot of rigor when they wanted to change the way they're presenting things, or they wanted to bring in product that was a little bit different, and when we put in place controls or governance that really inhibited that.

And so, moving a lot of it off to the side, and we've been working on that now for probably approaching nine months, getting through some of that and changing, and letting them try some things.

Yes, I told somebody a week ago, I went and met with our -- Bob Ulrich, who was our CEO about seven or eight years ago, and he talked a lot about letting the merchants just do some things, and forcing them to do some things. And when we put in men's blazers, he forced them to put in like green ones, and bright blue, just because they were different and they would catch your eye when you walked by, instead of just seeing gray, black, whatever, that everyone else offered. Put some things in there that are different.

And the merchant came back to him and said, hey, we also sold some of those green ones or whatever, and he was just like, well, that's unimportant. The point was, just put some things out there.

And so, I think getting back to that, and you can see the energy our merchants have about that. And if you have a chance, go back and look at some of the presentation from yesterday, because you really see the product and how it's evolving, and PD&D team kind of taking the handcuffs off of them and letting them design where trend is going, and getting back to the things that we do well from a product standpoint, and I think a lot of it is just removing the shackles.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Another question I had was on the term, localization, has come up a lot since Brian came in. Can you sort of -- where are Walmart -- Walmart? Sorry. Where are Target's systems today?

John Mulligan - *Target Corporation - EVP and CFO*

Walmart's good at it, at localization, yes.

So, where are Target's systems maybe versus Walmart's on ability to move towards -- what has to change to execute, to really execute, localization, and how soon could we see that? And is there -- are there any cultural barriers to localization for Target?

I think we have a long way to go. We're in, like, first batter up in the first inning as it relates to localization. We do some around climate, and that's about the extent of it.

I think for us, it is understanding that there's all different kinds of ways to localize, and our systems aren't where they need to be to support that, because welcome from a place where, and I think it's the right place, you want to make sure every guest gets that -- what we think about this Target brand experience, the store looks, feels, the same, and I think we took that to an extreme where that meant the product had to be the same in every store.

It's funny, because Brian, he was in Florida a week ago, and he saw a run of mittens and hats, and he's like, well, it's already 75 degrees down there, and we're shipping in mittens and hates. We're basically buying markdowns, and, by the way, the guest looks at that like, well, what are you doing here?

And then we pull patio out in July, when we pull it out of the rest of the chain. And it's like, well, you know what? They buy patio year-round in Florida.

So, that's climate, but that's just the very nascent easy-peasy stuff that we still don't do well.

So, we have a long way to go here, but to support that, to make sure that we can merchandise across if today we do 30 planograms for whatever set, we need to do 500 planograms. We have some technology that will allow that. I think the harder thing is allowing our merchandising teams to manage all the SKUs, and that's what we're focused on, setting up the background so that they can manage all of that effectively.

And then the other part is the data analytics behind that to say this is what should go there. This is what this store looks like, or this store looks these other 350 stores. Those 350 should all be merchandised the same, and that's where we really have the opportunity is building models behind it to allow us to know what goes where and how and when.

And that's where we have some -- we have some catchup to do, and Brian makes the point, there's nothing new about localization. It's just new to us, and the great thing is, we've seen how to do it. We know others can do it, and it's great upside for us as we implement.

But we've got a long way to go there.

Unidentified Audience Member - - *Analyst*

Hey, guys, a long time no see. A quick question on the opportunity for online. In the financial plan yesterday, you referenced 40%, I believe, compound annual growth, which I think would probably get you to about 20% of total Target sales in five years, if I'm doing my math correctly.

John Hulbert - *Target Corporation - IR*

Close.

John Mulligan - *Target Corporation - EVP and CFO*

Close. A little high, maybe, but close.

Unidentified Audience Member - - *Analyst*

How is the infrastructure scaled for that, and what has to happen at the various distribution points, like store level, and DCs, et cetera, over the five years, beyond the near term?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, it's a -- that's a great question because I think the supply chain, and the way we need to evolve our supply chain is a critical piece of driving that growth.

The -- broadly speaking, the way I think about the supply chain is becoming much more flexible, and it starts with when vendors ship to us, all the way through to our stores, and thinking about that entire supply chain as an opportunity to ship directly to the guest.

And for 50 years, our supply chain was geared toward doing one thing, moving product as efficiently as possible from the vendors out the front door of the store, and now you think about it's more of a web, any direction, any time. So, our distribution -- upstream distribution centers can ship direct to guests, our distribution centers can ship directly to a guest, our stores can ship directly to a guest.

I think the most powerful piece that we think about as we model going out, and the way we can avoid really large capital investments in building fulfillment centers is the stores. There is significant capacity there, and if you look at our store portfolio, much like everybody's, it's a bell curve of volumes, and on the lower end of that volume curve, there's a great opportunity to increase their overall return on invested capital by allowing them to ship from the stores.

Now, part of that needs to be, getting -- prepositioning web-only items in those stores. And so, we call that enhanced ship from stores, so ensuring that there's web-only product in some of those stores, and then using the balance of the store inventory to fulfill the rest of the product.

So, we think that's the major driver, and as we model out, we think that can be a significant portion of the supply chain for us, and, again, a great opportunity to be very close to the guest, be very fast, and to be very efficient, because we're only shipping the last mile.

So, a great opportunity for us, and we think that's where the -- that is where the focus will be for capital investment. We went last year from 3 to 136 stores in shipping from store, and we have 3 what we call enhanced ship-from-store. So, they're prepositioned web-only items.

We'll go to somewhere around 480 before the fourth quarter this year. We'll also expand the enhanced ship from store this year, and that really gives us a lot of flexibility as we think about gearing up for the fourth quarter, because we really only need that 136 to get within a day or two of 90% of the population.

So, as we add stores, that really just gives us flexibility to move around where those orders are coming from, to balance inventories, and to create capacity. And even at, you know, 480, we're still only at about 25% of our stores.

We'll have capacity to do it everywhere, or the ability to do it everywhere. We may or may not do that, but if you think about the capacity that is there, it's really enormous. The guests love it because it's quick. It's funny, we walk the back of the stores. The stores love it. We have some stores that are running one comp prior, we put in ship-from-store, and all of a sudden their store is running a 10 comp, and they love it.

So, it's a great opportunity to engage the store and really let them see that this is about both channels working together. So, it's great culturally, it's great from an efficiency standpoint, and it's a great win for our guests.

Unidentified Audience Member - - *Analyst*

Just a little follow-on, how does the compensation structure change around that, and who gets the credit?

John Mulligan - *Target Corporation - EVP and CFO*

Who gets credit?

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Just to repeat the question, how does the compensation structure change around that?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I wish we could report our sales as we record them internally, because everyone gets credit for everything. The digital team gets credit for a sale that's shipped out of a store, because it originated in a digital channel. The store team gets credit for shipping the sale out of their store. And we want to make sure that the impediment is not that we have any of the teams all vying for where that sale actually comes from. Everybody gets credit within their own P&L for those sales, and we think that's appropriate.

I think, more broadly, the thing we've done this year around incentives, which is a positive, is, particularly around merchandising, with all the changes going on there in the category (inaudible), say, you know what if you're the light-bulb buyer we're not going to because you're not going to get a lot of investment. You're going to set the light-bulb set, and you're going to make sure you're in stock, and you're going to have a great assortment, and drive gross margin.

And that's different than if you're the apparel buyer, women's apparel. You're going to get a lot of resources. We're going to reset the stores. We're going to give you a lot of marketing, the style campaign -- you all saw that. So, I think, we want to make sure that everyone feels like they're part of -- in the same boat, swimming the same way, and they'll all be -- for this year, anyway, they're all going to be compensated on total company sales. Are we driving the Company's sales?

And I think that's incredibly important for -- especially in merchandising, that they all feel like they're part of what we're doing here, even depending on which category they're in. Nobody feels like they're disadvantaged or can't win, because it's really about the Company winning.

Unidentified Audience Member - *- Analyst*

Can you just help us with a buildup to the 3% sales growth target? Especially in the context of the 40% e-commerce CAGR if we look out at the year? E-commerce growing at 40% would be greater than 3% of total company sales growth. So, any help you can give us in how you came up with that 3%.

John Mulligan - *Target Corporation - EVP and CFO*

Well, the 40% growing faster than the 3%, that's a few years out there, and certainly not in -- over the horizon we were looking at.

As we look at the 3%, 1% just comp store sales in the existing stores. So, I think for us, the important message there is, we think it's really important that the stores are growing, as well, that there's traffic into the stores, because, ultimately, that's the -- that's the real power here in the stores growing.

40% digital -- and I think this year that'll mean about half of our comp increase. That'll grow over time, you're right, but we think over the next five years, that won't be -- it'll be the dominant piece of the comp, but still only gets us to like a 2.5 total comp increase, 1 from the stores, 1.5 points from digital, with the 40% growth, and then another half a point of growth from net new assets, and we think the primary way that'll grow through time is probably TargetExpress. We've got a lot of testing to there to ensure that's the case, and where that'll be successful.

But we think, ultimately, through time, about a half a point of total sales growth coming from net new assets.

But I think it's -- the other two, it's about making sure that the stores continue to grow that they don't just decay away, and then the plus from the digital.

The reason the digital is so important, obviously, it's important because there's channel shifting going on and there's an element of we've need to capture those sales, but for us, as we look at it, the reason it's so important is that guest becomes so much more engaged with us. And we talked about that yesterday. They buy online, but when they buy online, they get a little bit more than 2 times the number of trips in the store.

So, they just become more engaged with Target in total. So, driving digital is about driving digital, but it also ends up driving the store, and that's why that channel is so important, and there's a lot of -- I read a lots last night and this morning about the aggressiveness of that 40%. Perhaps. We need to invest behind that and ensure that we give people reasons to shop with us digitally, but that's incredibly important, because that becomes the spin wheel that drives the store sales, and that's why we're focused on that.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Over here. [Emily]?

Unidentified Audience Member - - *Analyst*

Target was one of the leaders in terms of data analytics and understanding behavioral modeling and being able to anticipate people's shopping patterns based on changes in lifestyle, life age. Can you give us a sense for how you're thinking about that, going forward, and any implications it might have for your promotional resource allocation, perhaps shifting more to digital? What are you looking at on a forward-looking basis?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think that's a great question. We're going to invest a lot in data analytics. You're right, we started out as a leader, and I would say we kind of got caught up in doing things across in different areas of the Company, and lost the cohesive view of the guest, is one example. There's many others.

We've gone back and said, you know what? We're going to centralize all those resources. We're going to bring in some additional data scientists who can help us think through that in a better way and utilize more data, beyond what we have internally, right? You can bring in other data that helps to augment your own.

I think if you look back on Jeff's presentation yesterday, you'll see us as we communicate with a guest, moving from broad channels like our Sunday circular, to very focused channels like email, ads, social, ways we can communicate directly to the guest, and all of that driven by the personalization of the data we have.

We hired some individuals last year, and in six months they put together the data and built a personalization engine. We thought we would test our way into that. We put it in, in third quarter. We thought we'd test our way into that over a relatively extended period of time, but by the middle of third quarter it was clear it was performing better than the personalization engine we were using from a third-party provider, and by fourth quarter, we switched to our personalization engine.

They're continuing to refine that. They kind of own that as a product, and they continue to refine the analytics around that, and we're going to start applying that to email, to social media, to Cartwheel offers, to every way we communicate to the guest to make sure it's much more relevant, much more personalized.

And, you're right. We were good at this. I would say we kind of fell behind, but this is a huge, huge opportunity for us to continue to communicate with our guest in a more individualized way.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

[Ed], you've had your hand up several times?

Unidentified Audience Member - - *Analyst*

Just on the CapEx, you had talked yesterday about $1 billion of the $2 billion relates to IT-related. How much of that is related to just omni-channel spending?

And then, as we think about the CapEx over the next several years, which you'd given some sense of, how does the mix of IT spend within that change?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, the portion that's related to omni-channel, it's a little bit hard to break out, because there's certainly the part that's easy to understand, right? This is about mobile, and this is about the desktop, and this is about the supply chain, and making it more effective.

But a lot of the IT spend that's on our -- the core infrastructure of the Company, that's about making it more omni-channel capable. So, things like, right now, we're in the middle of combining two inventory systems, and the order management system into one place so, the merchants can only manage one set of inventory because those -- like a lot of retailers, those kind of grew up separately.

I think the digital business started on its own so it didn't get squashed by the big gorilla, but now you actually have to integrate it back on the back side, and that's true for inventory. It's true for guests. We just talked about that.

It's true for items. Several of the large systems that underpin a retailer have to be combined in the background, and we're in the process of that. So, that's a big portion of that spend, as well.

So, it's really hard to parse apart what's omni-channel and what's not, because, ultimately, it's all about omni-channel.

I think, as we go forward, we've spent 50 years building stores, and that was our engine of growth. And the reality, today, is there's not going to be a chance, a place -- and I got asked this two or three times yesterday -- where that IT spend comes down. Because that is really the engine of growth. There's always the next guest-facing thing. There's always the next capability that we're going to need to build, because that's where the guest is going. And IT really becomes that engine that helps us drive that.

We said overall $2.2 billion -- $2 billion to $2.5 billion, excuse me, over the long term. That $2 billion kind of base spend, $2 billion to $2.2 billion, half of that is technology and supply chain today. I would expect that to continue to grow.

Another big part will be continuing to reinvest in the stores, and making sure the experience is great across the merchandise categories, and then, the thing that would move up to the top end of that range would be acceleration of store format, and, likely, TargetExpress.

Now, the great thing is, those are relatively capital light. You could do 50 of those and it'd be $300 million to $400 million. So, that would get you to the high end of the $2.5 billion of CapEx. But otherwise, that $2 billion to $2.2 billion, significantly dominated by technology and supply chain.

Unidentified Audience Member - - *Analyst*

Hi, good morning. The Company spent approximately five years rolling out the PFresh remodels, and while that touched multiple areas of the store, the big focus was bringing in some produce offerings. That said, the produce offering that's in the stores, is pretty small. It's fairly focused, and so when you talk about the new strategy, which is to bring in more organics and more wellness, and really lead with that, how do you do that on the existing pad that you have?

Because when you go to a specialty grocer, they really lead with the produce, and it's just a much, much larger assortment. So, how do you have creditability in that category vis-a-vis your competitors with the existing store format that you have?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think, in aggregate, we think the size of the food offering is appropriate. It's about a little bit more than 20% of our sales. It takes up about that much of the store, a little bit more than that much of the store. The question is, how do you assort within that pad, and do we have too much of the, grocery terms, middle of the store stuff, and not enough of the perimeter. And I think that is the opportunity. We're testing to that.

And I think, like Kathee said yesterday, it'll be about refining where space goes within categories. The same is true of apparel. We've done a reset of that. We didn't change the total pad for apparel. But we reset the way that looks, the way it's fixtured, and what we're presenting to the guests. I think we have the same opportunity in food, and I don't know how much perishable product we'll add to the store. Clearly, to your point, we need to add some.

But I think that's about rebalancing the pad within grocery, not adding incremental space to the grocery area or the food area within our stores.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

[Theresa]?

Allow me to throw in first, while she -- just the wage question. I think everybody's confused, maybe, and I want to give you another chance to sort of tell us where Target is on wages versus Walmart and TJX, and --

John Mulligan - *Target Corporation - EVP and CFO*

Yes, I think it seems that everyone's waiting for us to throw out a number that we're going to match, and here's what I'd say. If, for instance, I threw out and said, we're going to be, we're going to pay $9, I can tell you, there are stores in North Dakota that would say, are you kidding me? I mean, the stores in North Dakota are the highest-paid stores we have in the chain, because of the labor situation in North Dakota.

So, our goal has been and will be, we're going to be competitive on wages, whatever that means, wherever that means, and to give you an arbitrary number that's some flat rate we're going to pay across the country, that's just not reasonable. In New York City, $9 wouldn't be reasonable as a starting wage rate, because we wouldn't be able to attract anyone to our store.

So, perhaps we haven't been clear enough. I think this is something that we do all the time. All the time wages are changing. There were lots of minimum wage laws in the states that enacted this year. We were prepared for all of that.

But we're going to be locally competitive, and we're going to pay what we need to pay to get a great team. I think the differentiations we get from our team is incredibly important to us. And the way we develop that team is incredibly important to us. It always has been.

Our team leaders in the store, 60% of them started as hourly team members for us. And so, having that development culture and ensuring we pay the right wages to get them in the store in the first place, and being able to draw the right talent to Target is incredibly important.

But fixating -- perhaps this is just the way we think about it, that we're not clear, fixating on some single number to us, on an average number is unimportant. It's about being competitive locally at a store level within a marketplace. That is important, and we're going to be competitive, and we're going to pay, and we're going to get the great team, and as we look at that, and we assess what others are saying about what they're going to do with wages, and we know that'll have impact on us, we just don't it's material.

It certainly has not changed the way we think about the year. So, I'm probably still being unclear, but that's the way we think about it.

Unidentified Audience Member - - *Analyst*

Hi. How do you think about the existing store base, over the next five years, because someone referenced yesterday that the -- 20 years ago the customer was the Baby Boomer, suburban house, and now the customer is, increasingly urban, diverse interests, diverse ethnicity, et cetera, and you layer over that the fact that you'll be doing pickup from store and so, how do you prioritize the stores in terms of who gets the remodel capital, how many of them do you think may be marginalized over time?

John Mulligan - *Target Corporation - EVP and CFO*

Yes, it's a great question, and one we think-- We spend a lot of time thinking about how -- where do certain reinventions go. Where should home go first, and we'll get the thousand stores with manikins very soon here, and how many of the remaining 800 are going to get it or not.

I think the challenge, as we think about it, is if you don't reinvest, it's fait accompli for many stores, right, because they don't -- they'll slowly just die off. So, we don't want to do that, and as we think about underwriting stores, we've had a long history of ensuring as we underwrite them, we underwrite them knowing that at certain periods of time, we are going to remodel that store, and ensuring that we have a relatively complex algorithm that looks at store traffic and age, and many other things to decide, hey, this store we need to go back and refresh, and this store we need to go back and refresh.

As think about rolling out the merchandise initiatives, clearly we're going to start with the most high volume urban stores, and then we work our way down the list, and, often, we'll do something like PFresh. When we got to the last couple hundred stores, we didn't spend $3.5 million that we spent on average, we spent about $1.5 million to $2 million on those stores. So, there's ways you can become more efficient as you get to the lower-volume stores,

I think the other thing that we think about is the opportunity for those low-volume stores -- and we've seen this -- as they start to fulfill products on behalf of the digital channel, they become much more productive. And so, stores that perhaps, through time, ultimately we may have found a different location for, or outright closed, they just become much more important, and that return on invested capital, improves significantly by utilizing it as more of a fulfillment center.

So, it's a really complex question. We deal with it all the time. We look at it every year. We're not shy about closing stores. A year ago, two years ago, we closed about a dozen. Last year about a dozen.

We've had a long history of having financial discipline about moving away from assets that no longer make sense. We'll continue to do that, but we think it's really important to invest in the stores and making sure that the experience is great, because if you don't, you know the outcome. The outcome is predefined because that store will slowly just drift away.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Great. We have run out of time. I want to thank John for a great, great Q&A session. Really appreciate you coming here today.

John Mulligan - *Target Corporation - EVP and CFO*

Appreciate it, Robbie. Thanks.
