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PRESENTATION

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

We are thrilled to have Target here this year. With me is John Mulligan, Target's Chief Financial Officer. He joined Target in 1996 as a financial analyst and has held multiple positions in finance, at Target.com, human resources, and took over the CFO reins in March of last year, 2012. And John Hulbert, here in the front row, who many of you know heads Investor Relations.

Clearly there's a lot to talk about in the Target story -- the opening of the first stores in Canada a couple months ago; continued progress in the US with REDcard and PFresh, ecommerce, supply chain, and lots and lots more.

I think John is going to start with some opening comments, and then we'll turn it into a Q&A.

John Mulligan - *Target Corporation - CFO*

Thanks, Colin. Good afternoon, everybody.

I thought I'd talk just a little bit real briefly here. We announced our first-quarter earnings. Talk about the headline numbers there but also provide a little bit of color on the quarter. But more important than that, talk about some of the things we're excited about going forward and the impact that will have on our business.

Before I start, as you guys know, this will contain some forward-looking statements. Those should be taken in the context of the risk and uncertainties that are in our 10-K. You guys know the drill on that.

First quarter, two headlines really -- comp store sales down 0.6%, short of the guidance we started out with at the beginning of the quarter, and short of the update we did early in April. Sales being down obviously led to our earnings being short of our expectations, as well. Both our adjusted EPS, which is EPS from our US businesses, and GAAP EPS, both falling short again of our initial guidance and the update we provided in early April. So let's go beneath the headlines here and talk a little bit about it.

Sales -- if you've heard us talk about weather over time, we talk a lot about -- we use the phrase -- this is Doug's favorite phrase, actually -- on average, weather is average. And he, of course, is correct and we really saw that in the last two springs.

Last year, very warm, very strong performance in our style categories and our seasonal businesses.

This year cycling against that, very cool and we saw the impact on our seasonal businesses, 6 to 7 percentage point gap between our nonseasonal and our seasonal businesses.

And we always expect some of that because our seasonal businesses tend to be more in the style categories, so there's always a gap between that and our less discretionary. But this gap much, much wider than we've seen in a very long time.

Economic challenges -- we started the quarter talking about some of the economic issues going on, particularly the payroll tax, the impact of that, and we continue to see that impact. We survey our guests. Are they're aware of the payroll tax increase. They're aware of it, and at least three quarters of them have said they reduced spending as a result of it to compensate for the loss of income.

So we definitely see continued economic challenges and lots of crosswinds here. Lots of good news. There's the stock market, housing prices, things like that. But unemployment remains high and we have the payroll tax, so lots of things working at odds with each other.

And finally, of course, we face the hardest comparison of the year, a 5.3% comp in Q1, as I said, just incredibly warm, perfect weather last year, and the full year, obviously, the 2.7%, so much lower. Strongest quarter of the year was first quarter last year.

Looking at adjusted EPS, probably the one notable item here was the expense pressure, and that was really driven by three discrete items.

The first one was the income from our credit card portfolio. And, again, there's three items that drove that. As expected, the portfolio is much smaller than it was a year ago. As we continue to see that decrease as the REDcard penetration increases, we have higher payment rates and the asset value comes down.

The second driver is we're cycling against a $35 million reserve release last year.

And then, finally, of course, we closed the receivables deal mid-quarter and began sharing our profits with Toronto Dominion.

Those three impacts together equated to about a 50 basis-point impact on expense.

Technology investments -- we said during the fourth-quarter conference call we expected to increase investments in technology and that would put $0.20 to $0.25 of pressure on our P&L throughout the year. $0.25 is about $250 million. Divide by 4, that's about $60 million and that's almost exactly what it was in the first quarter.

We also said we expected to offset the majority of that throughout the year through expense savings. Many of those savings have begun in Q1, and we'll see those grow as the year progresses.

And finally, as you'd expect when we run a negative 0.6 comp, we don't see really any SG&A leverage that we'd expect when our comp sales increase.

GAAP EPS similarly down, but driven -- in addition to the adjusted results, three discrete items once again. It's a day of threes, I guess.

Dilution related to the Canadian segment was $0.24, almost right in line with what we said at the beginning of the quarter. We thought $0.23, $0.24. Nothing going on there. We'll talk a little bit more about Canada in a moment.

When we closed the receivables sale, we had said our intentions were to use those proceeds in a credit rating-neutral manner. We initiated a tender offer on the same day really and retired about $1 billion of higher coupon debt and recorded a $0.41 loss in relation to that. And, of course, this doesn't reflect the economic benefit of doing that. The NPV was very positive.

And, finally, net gain on the credit card receivables sale, and this is reflective of the proceeds on a beneficial interest receivable that we booked during the quarter.

So lots of moving parts in our GAAP EPS as well.

Bottom line -- at the end of the day, disappointing quarter for us and we expect to improve. As we said, in the second quarter, we expect our sales to improve, something around a 2 to 3. And really, as we look forward -- and we'll talk about this now -- confident in our strategy and all the initiatives we have going on to drive growth as we look into the future.

So we'll talk about that now.

Let's start with REDcard. And we have spent a lot of time talking about REDcard in the past. I think the compelling nature of this offer in today's environment has really shown. We just had a quarter where our penetration increased by 550 basis points. And when a guest signs up, we see their spending go up by 50%. So very -- they become much more engaged with Target.

We continue to see a very long runway for REDcard, and I'll talk about that now.

Shown here is REDcard penetration in Kansas City since we initiated the 5%-off offer there about -- a little more than three years ago. And you can see a nice, smooth line heading upward. The dips happen every fourth quarter when sales go up. Our penetration tends to dip because people use other forms of tender. But if you look past that at the trend line, the trend line continues to be very smooth and in the upward direction. And Kansas City continues to grow 300 to 400 basis points a year, as well.

We've said for a long time that Kansas City is almost a perfect indicator of what's happening in the US. And shown here is, again, the total rollout penetration across the Company since we rolled it out a little more than two years ago. And you can see the line is almost exactly the same. And this is what gives us confidence that we will continue to see this kind of penetration growth in the US. And, as I said, Kansas City continues to grow 300 to 400 basis points. So we think there continues to be significant upside for REDcard penetration.

We've also talked a lot about how this really raises all boats. All of our guest segments are impacted when somebody applies for a REDcard.

So what we've shown here -- across the bottom is the number of trips a guest makes in a year. And across the left axis is the average spend per trip. The isobars are total spend at Target, so equivalent spend, depending on your mix and spend. The dots are how we think about guest segments. The upper right are what we would call VIPs. They're our best guests. They spend the most at Target. They're in our store a ton. The lower left are what we call unengaged. Might be in our store a couple times. And you can see the size of the circle is indicative of your total spend at Target.

So now let's look what happens when each of these guest segments gets a REDcard.

We've said that what we see is an increase in trip frequency, and the average basket stays about the same. So you can see, in every one of these cases, the circle moves to the right and gets larger. The VIP, it's a little hard to see, but the circle is larger. And our least engaged, you look at the movement that's made from a tiny little dot to a much larger dot and increased the number of trips significantly.

There is one guest segment where the average order comes down a little bit. I don't know what that is really. But, in general, what we see is all the circles moving to the right and upward, which is exactly what we want, and the circles getting larger. So across all of our segments, if we can get you to a REDcard, you become significantly more engaged in Target.

What else? Canada -- it has been a Herculean effort, I would say, over the past two years to get where we are today, where we have 48 stores operating in Canada and positioned to open 76 more throughout the rest of the year. We're really pleased with the reception we've received from our Canadian guests. The surge has been dramatic. I've talked to many of you about how we saw significant surges in traffic as we opened the stores and the second wave.

Canadians have come across the border for years to shop Target stores, and when they did so, they shopped home and apparel. So we thought we'd be strong in home and apparel. We thought that was a white space for us in Canada. But we've been surprised by the mix even with all of that. Home and apparel mix has been very strong.

So it's very early and the results -- really, they're not indicative of where we're going. It's really early, but we're really pleased with where we're at today. I think right now we're on the journey to convert those home and apparel shoppers to shop the rest of the store so that we can start to get more trip frequency. Get them into grocery and healthcare. And of course those are the trips that are much more difficult to convert, but we've been down this path with SuperTargets and PFresh, and so we know how to do that.

Multi-channel -- lots going on in multi-channel. I think one of our big focuses is around mobile technology, both commerce, and on the left here, tools that help our guests interact with us in the store. And you can see here an app that is in pilot in a few stores for way-finding. Our [vision] is they create a list. The list appears on the way finder and we help them navigate the store to fill that list. And, of course, ultimately, the goal would be, with their approval, while they're in the store making real-time offers to convert them as they're guiding -- working their way through the store.

Another initiative we just recently released in beta is called Cartwheel, and this is really an embodiment of where we see kind of this whole digital channel going. And so it's a combination of store, mobile, and social. And we've said for the past year or so, that's kind of where we see this going.

So in Cartwheel, you log -- you go into the site, you authenticate yourself through Facebook, and you're automatically given 10 slots. And in those 10 slots, you can select from hundreds of promotions, several hundred promotions. You pick the ones that are most relevant for you, rather than us trying to determine what you'd like to see.

As you engage with people on Facebook, talk about Target, you earn more slots. Ultimately, you can get up to 30 slots, depending on your engagement.

Once you've decided what you want, there's a place where you can get a barcode. You go into the store and when you shop for your products, you simply swipe the phone at point of sale and you receive the discount. But, again, it's a way for our guests -- a tool for them as they're shopping and a way for them to engage with Target and their friends through social media.

Finally, several flexible fulfillment pilots, or ways to deliver products to our guests, that are going on today, and you can see those listed up there. The big thing for us, or what we're trying to accomplish through these pilots is really threefold.

First, how does our guest want to use this? What's the best way to deliver goods to her?

Second, how can we operationalize that? We've spent 50 years honing, moving products one direction through our supply chain ultimately to the back door of the store and then through the front door and trying to do that as quickly as possible. Now we're moving product different directions, depending on what our guest wants. And for us, we need to learn how to operationalize that.

And third is figuring out, okay, what's the financial model behind that then? How does this all work financially? And for us, the key here is, this is a way to drive incremental sales against our existing asset base through that other channel and create a return on investment that makes sense in the digital channels.

Finally, City Target. We are currently operating six of these -- five we opened last year, one this year. We'll open two more later this year. Once again, really pleased with the results. The mix is very favorable. Home and apparel sales are very favorable. And, once again, we need to convert that guest to a more frequent shopper by getting them in there for healthcare and food.

The real thing going on here, though, with City Target is the great learning we've had, learning to operate these stores in different environments. We have single-level, two-level, three-level City Targets in all different types of environments. Much, much higher traffic than we see in our typical -- prototypical Target store, and the ticket's a little bit lower, so learning to do the supply chain in that environment, optimizing the product assortment for what the guest needs.

And we've learned that even though we brought the product assortment down, we can go down even further because there's some portions of the assortment we have today that we don't think will be needed in the future. And so our opportunity is to get the store even smaller. As we get the store smaller, the number of real estate options becomes much broader for us the smaller we can get. And those are the things we're working on today.

So, finally, you package this all up and where are we going financially? I think we always start with -- our financial model starts with strong operations. None of this works if we're not operating well.

Combine that with disciplined investing. In the US, we expect stable CapEx in 2014 and actually out beyond that, something in the $2.3 billion to $2.5 billion range. Canada, peak investment this year at $1.5 billion. That will come down more than $1 billion next year, so a significant increase in our free cash flow in 2014.

Increasing ROIC -- I think if all of you grabbed the face of our financial statements and calculated our return on invested capital for the last several years, you'd wonder what we were doing at Target because you'd come up with a number between 9 and 10. That's actually going down. And so you have to go beneath the surface. If you looked at our US retail segment, our return on investment now, driven by REDcard Rewards and PFresh, is higher than it's ever been in our history.

But there are two other matters that kind of bring our ROIC down.

The first is our credit card segment. It just has a much lower ROIC. Of course, the capital invested in that has a much lower return required because there's so much debt invested in that. But we've just sold our receivables portfolio. So we go from a low ROIC business to one that is ultimately almost an infinite ROIC as we still receive the vast majority of that income the receivables generate.

And, finally, Canada -- when you invest billions of dollars and record losses in your P&L, you obviously generate a very large negative ROIC. We expect that to turn in the fourth quarter of this year as we turn to accretion and then that will grow. So the ROIC will naturally improve in Canada.

Combine all of that together, and we expect that the return on invested capital in our US businesses to continue to increase -- or in aggregate, the consolidated businesses, to continue to increase over the next several years.

Finally, put all that together, and our goal is to return cash to shareholders. We've said dividends we expect when we generate $8 of EPS to be $3, and that's about a 20% compound growth rate for the next several years. Share repurchase, we've said we expect to retire 3% to 4% of our shares over the next several years.

And let's look at those last two just really briefly.

Over the last five years, we've increased our dividend at a 20% compound annual growth rate. And as I just said, we'd expect that to continue for the next five years, ultimately approaching $3 a share or more.

Similarly, share repurchase over the past five years, even with the significant investment we've made in Canada, we've reduced, on average, 4.5% of our shares annually and would expect to reduce 3% to 4% as we go forward.

And with that, we'll turn it over to Q&A. Thank you.

QUESTIONS AND ANSWERS

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

All right. Thanks, John.

Why don't we start with kind of the environment and the top-line trends. Clearly, a lot of noise in Q1 with weather and a tough compare. We could argue Q4 had its own idiosyncratic noise in that. I know you cut your sales in a million ways to sunset. How are you thinking about the differing cross currents? The weather has clearly been a negative drag on the business, and yet you do have some middle income consumers that are under some pressure, some better consumers that should be seeing better trends. How do you parse all that out and get comfortable with an outlook of 3% comp growth from here?

John Mulligan - *Target Corporation - CFO*

Yes, I think the 3% we see over time -- that's over time -- I would tell you we're on the -- in the short term here, we're on the lower side of that, something with a 2 on it right now in the current economic environment. We think what we said for the rest of this year, or what we expect to generate this year is something in the 2% to 2.5% range. And I think we do need to see just a little bit of improvement here to get back to a 3 comp.

And what we see is a lot of what you said. At the top end, people are doing well and people that are employed continue to shop. A third of our business, a third of our sales are generated by consumers or our guests who make less than $50,000 a year. Payroll tax increase had a significant impact on them. And we see them. They were struggling before. They're struggling now. And we continue to see that in our business.

So I think as we look out, we think things will continue to improve. There's lots of good news in the economy, too, and ultimately, that will play through to employment. And we think when that happens, 3% makes sense.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And do you see very different trends by income cohort of your guests or even by -- I love the bubble chart. Are you red guys doing a lot better? Are the trends for the red guys much better than the less engaged or the lower income guys?

John Mulligan - *Target Corporation - CFO*

For sure. I mean, they're spending more. And we see improvement. We see great news across all the REDcard holders. When our sales contract, the penetration goes up because our REDcard guests continue to come with us. So it's non-REDcard guests that create the movement around it. But we do see differences in shopping. And as we survey our guests, we see different reactions given where they are economically, absolutely.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. Housing's obviously been kind of a bright spot in the economy so far. Turnover is up. Home prices are up. How do you think about that impacting your home furnishings business, which is substantial. It's 20% of your mix. And trends haven't been that fantastic so far.

John Mulligan - *Target Corporation - CFO*

I think we've seen some improvement in our home business, not where we'd like to be, obviously, but we've seen some improvement in our home business.

I think housing prices being up and, as you said, turnover starting to happen, all good things. I think the thing for us that really, we believe, drives our home business is what -- household formation.

And for us specifically, in our home business, the important household formation is young singles, young couples, young families. And when we see that start to happen, then we'll really see -- it's first apartment, first home, that's where we really excel in our home business. And then odds and ends that people pick up for their home beyond that. But that's where our home business really excels, and I think when we see that, we'll see our home business improve even more.

But we're pleased with the trend. Minus 0.6% in the first quarter, the home business was right around there. It had not, as you know, for the past three years been that close to our company comp, so that feels pretty good to us and is progress.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

In that category, how much of that do you think is just the Target guest who's shopping home tends to be that guest under the most pressure, kind of that middle income, lower middle income versus how much do you is competitive pressure or merchandising? And I know you've relaunched the threshold brands. So how do you parse that out?

John Mulligan - *Target Corporation - CFO*

Yes, a lot of moving parts. We've worked hard on the merchandising. We started, given the economic environment, with RE, Room Essentials, brand first, kind of our good brand, and positioned that and took our time with converting home to Threshold. That's our largest brand, and so wanted to make sure we had that right. Designed a lot of new product, the packaging, the brand positioning, all of that, and we feel really good about the introduction of Threshold. It's out-comping the Company and doing very well.

So we feel great we've got the merchandise in the right place. I think when you think about homes, as people move up the economic stratosphere, they move on to other competitors of ours. So our sweet spot in home is the middle class, lower to middle class, and there, there continues to be pressure, so we'll continue to see pressure in our home business.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. And then I guess just philosophically thinking about Target's positioning, and clearly, the comps back in the mid-2000s were being helped by new store growth and the maturation of that, but traffic was stronger. I think a lot of us have always felt Target's kind of that first step in the aspirational affluent. Now, is that consumer still there and just needs kind of an economic kick in the pants? Or is Target kind of not that positioning anymore, as food has grown in the mix and it's become a little bit more consumables driven?

John Mulligan - *Target Corporation - CFO*

I think we're absolutely still there. The [Tar-jay] is still there, and we still do a lot of marketing and merchandising programs around it to create that differentiation and the store experience, of being differentiated from our closest competitors. So I think that is still there, and that is still our sweet spot is in that aspirational guest, particularly in home and apparel. That's where -- really important.

I think bringing food into the mix helped us just balance the portfolio and get to place where it's about 20% across our five big categories of our business. And that helps to create frequency, which kind of creates the stability for the business that we didn't have before. And we saw that in '08 and '09 as home and apparel really contracted. We didn't have the same stability that some of our other competitors did.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

One question I get a lot from investors is if you take out the benefit of REDcard and the benefit of PFresh, which kind of isn't really fair because you're doing great things to drive traffic, but if you take that out the, quote/unquote, underlying comps and underlying traffic haven't been great. In fact, one could say they've kind of been pretty weak. How do you think about that? How do you address that?

John Mulligan - *Target Corporation - CFO*

Well, I think I start where you did. Kind of -- if you guys weren't doing anything, you wouldn't be doing anything argument doesn't --

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Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

(Multiple speakers), right?

John Mulligan - *Target Corporation - CFO*

-- doesn't -- yes, exactly, and it doesn't make much sense to us. I think those are the things we're doing. Those are our core business, and to disaggregate them from our business doesn't make much sense. Those are the things we've done to drive our business, just like we've done things in all of our history to drive business. When we were increasing the number of pharmacies in our store -- well, if you guys wouldn't have done that, you wouldn't have increased your healthcare business. True enough, but we did do it because it made sense for the business. And I think that's how we think about -- those are integral parts of our business and they are driving traffic. And so I think you need to look at it in totality.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And thinking forward, obviously -- and we'll talk about REDcard a little bit more here -- the benefit of PFresh will start to kind of mature out of the traffic mix. How do you think about traffic, sustainable growth in traffic, in the stores especially, given the multi-channel shift and some of the categories, which are just not traffic drivers like they used to be -- media and video gaming and whatnot?

John Mulligan - *Target Corporation - CFO*

Sure. I think, one, traffic in the store -- we don't care where the traffic is as long as we get the sale. Happy to have it on a digital device. Happy to have it in a store. So I think either way we're happy with.

Traffic in the store, if you look back again, if you look back over a long period of time, you mentioned the 5 comps, normalized for the new stores, something more like a 3 comp, and we were running 0.5 to 1 point of traffic and the rest was ticket. The last couple years, when we ran a 3 and a 2.7, about a half a point of traffic, the rest is ticket. And that's how we think about the business. Growing traffic in this environment by about 0.5 a point, we would feel really good about.

We think PFresh, that continues to impact our business. But it is -- we're on the back end of that. REDcard Rewards will continue to drive our business. And we ultimately think the multi-channel business, the great thing about it if we do it well, it is about driving business, obviously, through the digital channels but also driving business in our stores. We know that a big portion of our sales come that were first influenced in our stores. We can track it. We see people building their list. And within a week, they come and buy it in a store. So those two need to work together to drive traffic. And, again, wherever the sale happens, we're happy to have it.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. Let's talk about one of those great traffic-driving initiatives, REDcard. One of my surprises in the chart you showed was really helpful. And I think you kind of said it's a nice straight line. It's actually exponential.

John Mulligan - *Target Corporation - CFO*

It is. It's curving --

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

(Inaudible) 550 bps up. This from Q1. I think it was 470, 450, 420. It's accelerating at an accelerating rate.

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Usually we think it goes the other --

John Mulligan - *Target Corporation - CFO*

It's still a smooth line. (Laughter)

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

It's a smooth line, but it's exponential. Usually you think about it being asymptotic,

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Why is it accelerating? Why is the penetration going up faster than -- every quarter for five quarters, it's been going up more.

John Mulligan - *Target Corporation - CFO*

I think two things. One, I think the offer is so simple and compelling. And I think it speaks to the economic environment. 5% off every day on everything in a Target store is a really compelling argument -- or a really compelling offer, excuse me, in the current economic environment.

And I think the second thing is -- and this is the one -- we've been pretty up front -- that caught us by surprise is debit. Because if you look at credit versus debit, it's now about 4 to 1 credit to debit. And again, I think that gets back to it's the right product offering at the right time. A lot of people don't want another credit card in their wallet or don't trust themselves to have another credit card in their wallet. But you get them to the debit, they understand that it's hitting their checking account. They can control their budget exactly the way they do today and get 5% off. It becomes just an incredibly appealing offer. And I think that's the piece that has surprised us and the reason we continue to see growth.

A little bit of the incremental growth, the past couple of quarters we also added the ability to get debit and credit online, and at least as we look at it, those applications have been completely incremental to what we saw in the store. The store hasn't changed at all, and we've simply increased applications with the online channel.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And there is a question here on why is Kansas City such a high correlation proxy for the national REDcard. And I'd maybe expand that -- so answer that, but then expand. And part two of that question is would I be reading too much into the red line lifting off the black line in the past quarter? I mean because if you extrapolate that, the total country is going to hit 100% before too long.

John Mulligan - *Target Corporation - CFO*

Yes, well, so I wouldn't do that. Kansas City, it is interesting because our credit team -- there are demographics in the Kansas City market that allow us to say -- we test a lot of things in Kansas City because it operates a lot -- we knew that going in.

And the interesting thing is, when we rolled it out we said, "Well, you know, don't worry. The results are great in Kansas City." And I remember Doug talking about talking out here in New York and people were, like, "You've got to be kidding me. Kansas City does not operate like the rest of this country."

Same story in California. They're like, "Where is Kansas City? You've got to be kidding me."

But it does, it has great demographics to test in, and it's very indicative of what we can expect to see across the rest of the country.

I think the slight uptick that you see in the US versus Kansas City, much like I'd tell you if you were extrapolating that 38% gross margin in Canada, way too early to know anything, and we'll see. We're pleased with the results and -- you know, Kansas City has been such a remarkable roadmap that I wouldn't expect significant deviation from the rest of the country.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And when do you think you'll start to see Kansas City go asymptotic?

John Mulligan - *Target Corporation - CFO*

It's a great question. Not knowable. When we first started this, I think we've told people we thought 20% by 2017 was kind of our stretch goal. If we worked hard, did great marketing, the stores did their part, which they always do, we'd get to 20%.

Our stretch goal now is about 30%. Kansas City likely there in about three years given their growth. We think 30% feels like a stretch goal for the Company, and we're working hard to achieve it. But we really don't know where up is.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And then final question. And I know part of the idea was you drive more traffic initially. You obviously get great data.

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

You already get great data, but you get even greater data on what people are buying. Are you able to use that data to then start to reach out and do more one-to-one marketing?

John Mulligan - *Target Corporation - CFO*

Yes. I think that's -- to the extent again our guests want to receive that -- and most of them do as long as they're relevant offers from Target -- the data really helps us make the offers relevant. The more we know about you, the more relevant the offers are. Even if we're trying to get you to try a new product, it becomes much more relevant if we have more data on you. And so absolutely, that drives (inaudible - multiple speakers).

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And are you doing much of that yet? Because I'm, hopefully, one of the first REDcard holders. I'm a loyal REDcard holder. I don't get a lot of personalized marketing at this point.

John Mulligan - *Target Corporation - CFO*

Well, part of it is, again, guests letting us know by giving us their email addresses or whatever. That's the best path we use. That's the most frequent path we use today.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

What percentage of REDcard holders do you have email addresses of today?

John Mulligan - *Target Corporation - CFO*

Many. Many, many. That's all I'll say. And so I think --

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Let me give you my card. Apparently, you don't have mine.

John Mulligan - *Target Corporation - CFO*

Correct. Or we might have your wife's. We don't know what she's getting. And she'd be the more likely one to get it given our guest demographic.

But I think we have opportunity to increase that, and to do more personalization. The opportunity is we're doing it and we can get a lot better, no question.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And it sounds like, just to verify, you haven't seen any degradation in terms of lift, in terms of the margin mix of what people are buying?

John Mulligan - *Target Corporation - CFO*

No. We thought about showing that, through time, what's the lift been, and it is literally a flat line across, at 50%. We'd have to put two lines, because of debit and credit, but they'd be right on top of each other at 50%.

And there's a slight margin mix because people buy -- the first trip, they usually get some more (inaudible) or something, but that mix impact is much less than what we used to see when we had the 10 off on your first trip. You'd see significantly more mix impact from that.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. And then just briefly on PFresh, you've now got three-plus years of PFresh remodels in there. Is the initial cohort -- how has that matured or aged relative to the plan you laid out, I think, in February 2010?

John Mulligan - *Target Corporation - CFO*

Yes, the PFresh, we said at the time in 2010 6% incremental lift in year one, 2% and 2% in years two and three, and the lifts that we have seen have been remarkably on that.

Today, we don't have -- we can't measure it any more with real accuracy because we don't have a control group to measure against. For that first cohort, we had a pretty good control group for all three of those years, and we saw pretty much exactly what we expected to see.

And I think more importantly than that, with PFresh, we have -- we think we have the right assortment really balanced across 20%, and our stores are now as fresh as they've ever been. So we've got the right assortment and brand new stores, and with PFresh driving traffic and 5% rewards driving incremental trips, the net effect of that is we see -- our guests see more of the store.

If you're in the store eight times a year, we change it out much more often than that. There's new products all the time. If you're in the store 18 times or 24 times a year, you see everything we do. So we have the ability to sell you more new stuff that comes in the store, and we see that.

Particularly in REDcard, those guests shop two-and-a-half more departments per year than non-REDcard guests because they're just in more often and they see all the newness that we bring to the store.

So PFresh in combination with REDcard, that's the real benefit of having done that as we go forward.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And the other question I get a lot is we've been talking about collectively RED/PFresh for about three years now. Target is known as kind of an innovative company. What's next?

John Mulligan - *Target Corporation - CFO*

What's next? I think the big things -- I talk a little bit about the big things we're working on. I think we're very focused on the multi-channel initiatives, and as I said, we think that has the ability to drive sales in our digital channels, we think has the ability to drive sales in our stores, as well.

The stores are the key asset that online-only retailers don't have, and that's a great opportunity for us to create an experience and discovery in the store and utilizing technology to join those two together.

I think we think about continuing our efforts around segmentation and continuing to get -- we've come from a place where we wanted consistency in our stores. We've gotten much better at segmentation. Food has helped us get better at segmentation. The border stores in areas like Texas and Arizona have helped us. But we have an opportunity to do a much better job of segmenting the product assortment and the merchandising to the guests that are most frequently in that store, and so that's a big opportunity for us that we continue to work on.

And then, third, I think City Target continues to be an opportunity that we're learning from. Again, a lot of that is optimizing our merchandising assortment, learning to operate in different environments, in smaller environments, and that's an opportunity for growth.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And what's the timeline on City Target? You've got, I think, six open today.

John Mulligan - *Target Corporation - CFO*

We'll open two more this year.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And at the end of 2013, will that be a big enough data set to say this works or it doesn't work, or when will you make that decision, and how fast could fast be?

John Mulligan - *Target Corporation - CFO*

Yes, I think we've said all along we're going to pause in '14 because you know us, we're thoughtful, and so we feel good about City Target as constructed today. If we can find sites, we'll open more City Targets.

The key is we're about 30% smaller than a typical Target store, and while there are more of those sites in urban areas, there's not a ton of those sites. So the real question for us is how small is small, and we need to learn some more there. You know, shrink the assortment, try a different little bit smaller store, little bit smaller City Target, and see how small we can get, and that will open up -- depending on small is small, that will open up more opportunities.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, so it sounds like the returns of the first six stores based on all of --

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John Mulligan - *Target Corporation - CFO*

Yeah, we feel good about --

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

-- four months of sales are meeting or exceeding your expectations.

John Mulligan - *Target Corporation - CFO*

Yes, right where we'd expect them to be.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And how hard is it then to go to the next level of shrinking the assortment more, and are we talking about a store set of 500 stores if you got it right?

John Mulligan - *Target Corporation - CFO*

You know, I wouldn't put a number on it because I don't know how low is low, how low we can get. I'd say at the -- we said at the current assortment level or the current level that those stores range in, maybe 100 or something like that, and if we can get smaller, there will be more opportunities.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Yes, I think you've kind of said square footage growth around 2%.

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Does what you've seen out of the City Targets so far make you think there's an upside case there or not?

John Mulligan - *Target Corporation - CFO*

I don't think so. One, again, we have more to learn, and you guys will see that coming before we'd ever get above 2%. And, two, the current economic environment is what it is, and we feel good about the current 1% to 2% square footage growth that we have in our plan.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, great. Let's talk about Canada just generally. Anything really surprising so far?

John Mulligan - *Target Corporation - CFO*

The intensity of that surge was very surprising. I think we probably out-thought ourselves a little bit, tried to open up these three stores in the western part of the Greater Toronto area, 50 miles from downtown, just to test the systems and make sure things were working, and that turned out to be not a good idea because we just were overwhelmed. Those poor stores were literally overwhelmed, and we probably would've opened many more of them at once had we known that was going to happen.

I think the other thing, as I've said, Canadians, they know us for home and apparel. That's what they came across the border for, and so the mix of home and apparel has been -- we expected it to be strong, we've leaned in that way, and when you start, you don't want to drive a lot of frequency categories till the team knows what they're doing. But the mix in home and apparel has been a bit stronger than -- we were a bit surprised by that.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And is it just the mix or the level of home and apparel is above and the level of consumables is where you expect it?

John Mulligan - *Target Corporation - CFO*

The level of sales of home and apparel as a percentage of the store is higher than we expected.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, so how much -- I've got $8 billion -- or $6 billion and $0.80 in the model. How much should I (inaudible) at this point, John?

John Mulligan - *Target Corporation - CFO*

I wouldn't do anything based on two months of data.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay.

John Mulligan - *Target Corporation - CFO*

We still feel really good about what we've talked to you about. We have been historically in the US much better at predicting fifth year sales than first year sales, and the first-year sales look like a scatter plot, and by fifth year, everything's kind of honed in on what we thought would happen -- plus two, plus -- minus two, occasional rock star, occasional flat tire -- and we expect that to happen here.

What we've said is there's going to be bumps along the way. We haven't provided a lot of detail on the P&L, but there's going to be a number that doesn't work the way we thought certainly as we go through this, and we'll work on it and refine it, and we feel really good about delivering those 50-year targets.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

How quick -- so 38.4% gross margins in Q1. Clearly, mix was a lot better. But how much of that is persistent based on a better mix, based on -- it is a higher price environment than the US, and it has to have higher gross margins.

John Mulligan - *Target Corporation - CFO*

Yes. I think part of it is -- and we haven't marked down anything yet. We haven't transitioned anything. So there will be markdowns to come and transitions to come, and we think the mix probably doesn't settle. It wouldn't be a good thing if the mix settles in where it is today. We need those frequency categories to drive [foot track] of growth sales.

So we'd expect it to come down, but we've said all along we expect EBITDA margin rates to be a couple hundred basis points wider in Canada. A meaningful portion of that will be from the gross margin.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

From the gross margin, okay, great. Specifically, what are you seeing from the competition in Canada so far?

John Mulligan - *Target Corporation - CFO*

Very strong -- they have less competition, less retail square footage per capita than the US. That would lead you to believe a little bit less competitive, but very strong operators. Loblaws is a great operator. [Solby]'s is a great operator. Canadian Tire is a really good company. Wal-Mart's there. We know -- you know they're formidable. Costco's there.

So I think they did a lot of things we'd expect them to do. They improved their buildings. They worked on loyalty programs. We've seen some pricing moves, obviously, but I don't think we've seen anything that has caught us off guard. But they're all on their game for sure; they're all doing -- protecting their turf, as you'd expect, as we would do if it was happening to us.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. And just in terms of promotional intensity, clearly, you open, they want to send some messages that we're not going to roll over and die. Have you see any -- you've got, what, two months of sales, so have you seen any kind of flattening of that so far?

John Mulligan - *Target Corporation - CFO*

I think probably too early. We maybe didn't see quite as much as we thought we'd see. People were sharp, and we saw prices come down.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

So you didn't see as much promotion (inaudible - multiple speakers)?

John Mulligan - *Target Corporation - CFO*

Yes, as we thought we'd see, and that was just our own view of the world, not based on anything, but people remain very sharp on price. There's no question about that.

But as we said, we're going to be locally competitive on price, and we expect things will equal out. Everyone's got the same cost inputs and capital inputs, and we all need to earn a return, and we expect things to return to a normal balance just like they do here.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, final question on Canada. Obviously, the day you open the stores, you turn everything on, everyone's [collective] holding their breath.

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Where are you in terms of execution risk at this point?

John Mulligan - *Target Corporation - CFO*

A lot of the execution risk is behind us. We need the initial execution risk. We're still refining. Things like replenishment systems, they take a while to tune, and so we're tuning, and each one of the stores will be different. So we're working through that.

But there is a wave of system enhancements that need to come and operational enhancements that need to come, and that's just us honing the business that needed to happen naturally through time just as we've done in the US over 50 years, but part of us improving and getting to that profitability we need in Canada, we don't have everything we need on day one. There's follow-on investment that we need to do. So that needs to continue to happen. But as far as what we planned for the start-up, we feel really good about where we are today.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, great. Let's talk a little bit about multi-channel. In Q1, I think some of us were a little bit surprised at the amount of spending going on there. On the other side, your competitors are spending aggressively. How are you balancing investing in the business today, knowing what you need to do to be competitive versus what the returns are going to look like on that investment down the road?

John Mulligan - *Target Corporation - CFO*

Yes, I think we said we look at this through a return-on-investment lens. We know we have technology investments and resources. The expense is going to come more quickly than building a store where you expense it over 40 years or whatever, so very different dynamics.

We feel good that we will get to a return on investment that makes sense, particularly if we can get flexible fulfillment and use our existing assets. We think we feel very comfortable we'll get to the right return, but I think you're going to continue to see our capital budgets be dominated by technology and distribution in support of our multi-channel (inaudible), and that will play through in the expense.

I think the key for us, which we've also talked about, is we expect to offset that. We've talked about we have an expense optimization initiative. That's what we call it. And that is our effort or our -- not our effort; that is what we're working on to pull expense out from the rest of the business. If this is where we're growing, then some of the things we used to do, we don't need to do anymore, and we need to move resources appropriately.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And can you just talk about the timing of that, the expense optimization program, especially. Does that -- by the time you get to the back half of the year, is that kind of offsetting the investment? And is there more legs on expense optimization than into '14 relative to the year-over-year change in e-commerce and supply chain spending? In other words, your margins are going to be down this year.

John Mulligan - *Target Corporation - CFO*

Yes.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Should we expect some recovery next year as the relative timing and balance of those two pick up?

John Mulligan - *Target Corporation - CFO*

Yes, I think the benchmark for us is -- and we remain committed to this -- is a 10 EBITDA through time, and we will balance to that, and we think we will -- to your question, yes, we will continue to pull out expense next year, although we'll continue to invest in e-commerce, as well, but managing to a 10 EBITDA and balancing that SG&A is absolutely our goal through time.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. Just a couple questions from the audience here. Can you comment on your share repurchase capacity relative to this year's $2.2 billion expectation?

John Mulligan - *Target Corporation - CFO*

We still feel really good about the $2.2 billion for this year, and that's what we're targeting.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. And why haven't we seen higher cross-shopping of the store from PFresh customers in traffic?

John Mulligan - *Target Corporation - CFO*

I think we are seeing that. We said we thought we'd see more of it in year two. We started to see it in year three, where they're really starting to shop the rest of the store, and that's kind of the comment I made earlier.

When we get these trips, particularly when you have PFresh working with 5% rewards, people are in the store more often and they shop more of the store. And the reason we talk about the REDcard Rewards is we can isolate the data. We see them shop two-and-a-half more departments every time they're in the store. So we do see that cross-shopping once we get the trips.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay, a question here on the competitive environment. Wal-Mart's gross margins have ticked up for the past two quarters. How do you see the competitive environment and pricing environment today?

John Mulligan - *Target Corporation - CFO*

Yes, I think we'd use the word rational. Wal-Mart remains very competitive on price, and we'd expect very soon they'll start talking about back-to-school rollbacks, and they're always very competitive in back-to-school. But we think the pricing environment appears rational. Everyone's acting like they typically would, very sharp on price (inaudible).

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

And I know you measure price perception, as well as price separation. How does Target stand today on the perception front? I know REDcard has influenced that a little bit, as well, right?

John Mulligan - *Target Corporation - CFO*

Yes, we have improved meaningfully over a long period of time on price perception with our guests, and REDcard kind of puts it over the top. We get to parity on price perception with our guests.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. We've got a few seconds left. I'll try to do the wrap-up here.

John Mulligan - *Target Corporation - CFO*

Okay.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

You've laid out a goal of $100 billion in sales and $8 in EPS by 2017. What could go wrong that you wouldn't achieve that?

John Mulligan - *Target Corporation - CFO*

I think sales is the wildcard, and I think the economy looks a little bit softer to us. We talked about that in the fourth quarter. We talked about it now. We've pulled back sales a little bit. I think seeing some improvement in the economy to help drive sales a little bit, I think, would make us feel better.

But the reality is last year, we fell short of our sales goal, and we delivered the EPS goal. We measure that adjusted EPS against our path, and we hit our EPS numbers. So our expectation is that we will deliver $8 a share in 2017.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Okay. Final question, three part given the day of threes here. Strategic Decisions Conference, so three kind of strategic questions.

How will Target be different in five to 10 years? What's a sustainable growth rate for the company? And what important or strategic decisions might you have to contemplate in a five to 10-year horizon? So how are you going to be different, growth rate, are there any strategic decisions you're going to have to tackle?

John Mulligan - *Target Corporation - CFO*

I think we will be meaningfully more digitally integrated like most retailers five to 10 years from now. It will happen sooner than that, but -- and I think along with that, the store experience is going to look different. Stores -- again, our key asset is our store. The store experience needs to look and feel different. There will be more service elements probably in the store than we see today, and you see us testing some of that right now. And how we use technology in the store and tie that to our digital channels will probably look meaningfully different than it does today. So lots of evolution there.

What was the second one?

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Growth rate. We've kind of laid that out. You put 100 (inaudible).

John Mulligan - *Target Corporation - CFO*

Yes. And then what strategic decision? We'll make a number of strategic decisions over the next five or 10 years, but what I would tell you is as we make them, what sits at the center of our plate is what does our guest need, and you'll see us test all around to try and determine what our guest needs, and our strategic directions will be determined by what she needs to fulfill her shopping experience at Target.

Colin McGranahan - *Sanford C. Bernstein & Company - Analyst*

Great. Thank you very much, and thank you all for coming today.