Michael Fiddelke
Chief Financial Officer
Our Business
Sustainable Model
Build on Our Success
Low-single digit comps → Mid-single digit growth in Operating Income → High-single digit growth in EPS

Continued Expansion of After-Tax ROIC
Quarterly Numbers
Profit Rates
Single Transaction
Promotions
Cost of Labor

OR

Future Investments
Profit Dollars
Lifetime Value
Everyday Prices
Investments in Team
Quarterly Numbers
Profit Rates
Single Transaction
Promotions
Cost of Labor

OR

Future Investments
Profit Dollars
Lifetime Value
Everyday Prices
Investments in Team
Long Term

Short Term
Long-Term Focus

Strong Execution Every Quarter
Strong Topline Growth
Profit Rates vs. Topline Growth
2019 Performance

- Traffic up 2.7%
- Comparable sales up 3.4%
- Operating Margin Rate up 50bps
- Operating Income Dollars up 13.3%
- GAAP EPS from Continuing Operations up 15.4%
- Adjusted EPS up 18.4%
- After-Tax ROIC of 16.0%
Relevance & Growth
The path to long-term profit dollar growth **is healthy topline growth.**
Our Journey in Digital
Ten years ago, we were hesitant to invest in digital.
Our guests loved us, but shopped a little less often.
We realized the need for change before it was too late.
Strong Topline & Bottom Line
New fulfillment possibilities emerged.
Ease, Convenience & Reliability
Same-Day Services

order pickup

drive up

Shipt
New Ways of Shopping

Higher Engagement
Drive up

~25% increase in overall spend

+50% digital spend

+9% in-store spend
$20.66 total
2 items

Drive Up
Richfield
Ready within 2 hours

$13.22 reg $14.69
Contigo 32oz Autospout Straw Ashland Hydration Bottle Scuba Blue

Qty 1

$5.99
Berry Blend Fruit and Veggie Strips - 12.5oz/25ct - Good & Gather®

Qty 1

Add promo code

Estimated order summary

Subtotal $19.21
Estimated tax $1.45
Total $20.66

Check out

Discover My Store Wallet Cart
Our Digital Journey

Design Solutions + Invest in Capabilities

Credibility + Convenience

Business Growth

New Capabilities + Business Model
Long-Term Financial Algorithm
Low-single digit comps → Mid-single digit growth in Operating Income → High-single digit growth in EPS

Continued Expansion of After-Tax ROIC
All of our initiatives are working together.
Beauty Comparable Sales

- 2017: 1.7%
- 2018: 5.3%
- 2019: 7.1%
Operating Income Margin Rate Drivers

Gross Margin
SG&A

\{\}

Little to No Net Change

D&A

\rightarrow

Slight Leverage

Operating Margin

\rightarrow

Slight Leverage
### Operating Income Margin Rate

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**Little to No Net Change**
Operating Income Margin Rate Drivers

Gross Margin
SG&A

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Little to No Net Change

D&A

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Slight Leverage

Operating Margin

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Slight Leverage
Low-single digit comps → Mid-single digit growth in Operating Income → High-single digit growth in EPS

Continued Expansion of After-Tax ROIC
Capital Deployment Priorities

• Invest in the business
• Support the dividend
• Return excess cash
Capital Spending
CAPEX

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<th>CAPEX Range</th>
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<tbody>
<tr>
<td>2019</td>
<td>$3B</td>
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<tr>
<td>2020</td>
<td>~$3.5B</td>
</tr>
<tr>
<td>2021</td>
<td>$3-3.5B</td>
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<tr>
<td>2022+</td>
<td>~$3B or less</td>
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Dividend Payout Ratio

Payout Ratio calculated using Net Earnings from Continuing Operations
Share Repurchase

- 2010: $2.5B
- 2011: $1.9B
- 2012: $1.9B
- 2013: $1.5B
- 2014: -$0B
- 2015: $3.4B
- 2016: $3.7B
- 2017: $1.0B
- 2018: $2.1B
- 2019: $1.5B
Low-single digit comps → Mid-single digit growth in Operating Income → High-single digit growth in EPS

Continued Expansion of After-Tax ROIC
Middle-A Credit Ratings
After-Tax ROIC

- 2017: 13.6%
- 2018: 14.6%
- 2019: 16.0%

Excludes discrete tax benefits related to the Tax Cuts and Jobs Act of 2017
Low-single digit comps → Mid-single digit growth in Operating Income → High-single digit growth in EPS

Continued Expansion of After-Tax ROIC
Guidance reflects

everything we know today.
2020 Financial Projections

- Comparable sales ➔ low-single digit increase
- Gross margin rate ➔ essentially flat
- SG&A expense rate ➔ moderate increase
- D&A expense rate ➔ small decline

Operating income rate ➔ flat to up slightly

Operating income dollars ➔ mid-single digit increase
GAAP and Adjusted EPS ➔ $6.70-$7.00
1st Quarter Expectations

- Comparable sales ➞ low-single digit increase
- Gross margin rate ➞ moderate increase
- SG&A expense rate ➞ moderate increase
- D&A expense rate ➞ small decline

Operating income rate ➞ small increase

Operating income dollars ➞ mid-single digit increase

GAAP and Adjusted EPS ➞ $1.55-$1.75