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PRESENTATION

John Hulbert - *Target Corporation - VP, IR*

Good afternoon, everyone. I'm John Hulbert, I lead our investor relations team here at Target and I want to welcome all of you here today. We are going to get started here in just a second, but we have a couple of housekeeping items we are going to take care of upfront.

So we've got two slides. I'm going to read these verbatim. Any forward-looking statements that we make this afternoon are subject to risks and uncertainties, the most important of which are described in our SEC filings. And our earnings press release and SEC filings available on target.com/investors provide reconciliations of adjusted EPS to our GAAP results and a reconciliation of the non-GAAP components of ROIC. With that, we can get started.

(video playing)

Brian Cornell - *Target Corporation - Chairman & CEO*

Well, good afternoon and on behalf of Target, I want to thank you for joining us today. As you just saw, it's been quite a year and I have to say I'm really proud of our team and what they delivered during one of the most intense period of changes in our Company's history.

Looking back on this meeting a year ago, Target was in a very different place than where we are today. Last March, we were discontinuing our Canadian operations, restructuring our US headquarters and reworking our core operations. Most of you remember the state of play all too well. In 2015, when we gathered here together, we laid out an ambitious plan to put Target back on a path for profitable growth.

And if you look at the results today, one thing is clear. Our team delivered. We said that we would drive traffic back to our stores and we did. We finished 2015 with our fifth consecutive quarter of positive traffic growth. We hit the high range of our comp guidance. Signature categories led the way, growing almost 3 times faster than the rest of our business. We set a highly ambitious growth goal for digital and our sales topped 30%, shattering holiday records and lapping the industry for the year.

We also said everything was on the table and we meant it. We announced a $1.9 billion deal with CVS Health last June and we closed it six months later. We said we'd bring more industry expertise to Target and we welcomed world-class experts in virtually every aspect of the business from technology, to stores, supply chain, to merchandising and marketing.

Taking it all together, given the results we expected, we said we would deliver adjusted EPS between $4.45 and $4.65. When we closed out the year, again, our team delivered, $4.69 of adjusted EPS, well above our range. And importantly, 11% higher than the year before.

That's a growth story, a growth story that we are very proud of. Our focus on the fundamentals is driving this performance and I can tell you headlines like these certainly give our team a little spring in their step. But really this is the most important measure of all. Our guests are falling back in love with Target all over again.

So are we declaring victory? Not even close. Most of you know me all too well. No doubt we are very proud of the momentum and I'm proud of this team. But we've got a lot of work left to do and I'm very confident in the plan that's going to guide us going forward. Our ultimate goal, to drive profitable growth today, tomorrow and well into the future.

So I also know that you've got a job to do. Got to dig in, better understand what's driving our current performance and ultimately determine if we've developed a strategic framework that will sustain our current growth. We laid out a bold multi-year transformation agenda last March and you are going to see that the plan is consistent from one year to the next.

From the onset, we rallied our team around five key enterprise priorities and we will be laser-focused on those same initiatives in 2016. If anything, you will see that the road ahead will bring even greater focus, clarity, prioritization around the things that matter most to our guests. And that includes enhancing Target.com and mobile performance, offering a richer digital experience that deepens engagement, reduces friction no matter how our guests choose to shop.

We are creating more locally relevant experiences and bringing our new format strategy into key urban markets and college campuses. We are developing a meaningful rewards program that engenders love and loyalty. And we are implementing merchandising strategies based on category roles and growing share in those critically important signature businesses.

We've made a lot of progress against each one of these priorities, but before we go on, I think it's important to step back and paint the bigger picture to show you exactly where we are headed, what it will look like, what it will feel like to shop Target in the not-too-distant future.

So let's spend a few minutes and look at it through the eyes of a guest. Anna. She's a busy mom. She has two kids. Her youngest is turning six and the party is tomorrow. Anna works nearby in Midtown, takes the train home to North Jersey every night. Many of you know this all too well. Her routine is consistent. She picks up the kids at school and shuttles them off to an evening activity before returning home for dinner. Tonight, it's swimming lessons. It's been a hectic week and Anna hasn't had time for anything but the invitations.

So while she's on the [path] train, she pulls up her Pinterest board, taps the Target app and thumbs through her list. It's going to be a Star Wars party. Everything is easy to find, all in one place -- balloons, streamers, even the cake crawling with storm troopers. She picks out the blue light saber that belongs to her daughter's hero. Two more taps, she's done with her list. Her order will be waiting when she gets to the store. Anna has 30 minutes to get to the school, make her Target run and get the kids in the pool.

When she gets to the store, she gets a text message to let her know the order is ready. She grabs some chicken wraps, fruit for dinner, fills her basket with a few other things she remembered along the way and Anna checks out. She collects her Cartwheel deals. The party, it's a hit. And all is well in that galaxy far, far away.

So now you are probably wondering, Brian, is that the future? It is because everything worked and it was really easy. Aside from her children, Anna's most treasured thing in life is time. She had 30 minutes to plan a party. She had no margin for error. She had to pick one retailer that could make it all happen and she picked Target. Any little hiccup -- the apps running too slow, the fruits not fresh, no blue light sabers in the tri-state area -- we let Anna down and in the past, we might have missed the mark on any one of those things. And it cost us sales and it cost us a guest.

Our future depends on getting the fundamentals right. And that means modernizing supply chain. It means enhancing our technology, taking complexity out of our systems, elevating the use of data and driving productivity savings across the entire business.

John Mulligan will be the very first to tell you this doesn't sound like the sexy stuff, but these are the things that make Target work. These are the building blocks for our future and these are the things that will drive growth at Target for years to come.

So we've said many times that, for us, transformation starts with the guest. It starts with people like Anna, every decision, every action, putting the guest at the center of everything we do. And right now, I don't think we've ever been closer to understanding, truly understanding what our guest expects.

Not long after I arrived at Target, it was clear we've been spending a lot of energy, a lot of resources on guest research, but we really didn't know the guest. While different teams across the enterprise have been working to improve the guest experience, they've all been doing it through an individual lens. No one was looking at this from an enterprise standpoint. So we established our first-ever guest center of excellence, which brought together all the teams, all the insight teams across the Company.

Now Carolyn Sakstrup, who leads this effort, certainly brings a unique vantage point to the job. Before taking on the role, Carolyn took this guest first challenge to heart. She and her family of four only shopped at Target for a year. That's right, for a whole year. And then blogged about the things we got right and things we didn't. Let's take a look.

(video begins)

Carolyn Sakstrup - *Target Corporation - VP, Guest Center of Excellence*

My family and I attempted to shop only at Target for an entire year. The inspiration was to see how much money we could save and I knew almost immediately that saving money was not actually the purpose of the year. The purpose of the year for me was to be able to get closer to our guests and what they experience on a daily basis.

My relationship with Target in that year as a guest fundamentally changed. So here I am in the store feeling like I know this place better than I ever have, but the place doesn't know me in any different way than a guest who comes in once a year. The only way to know more about our guest is to get to know our guests.

The overall mandate of the guest center of excellence is to help instill guest centricity for everyone who works at Target. We aspire to enable all of our headquarters team members to have more empathy for our guests. So we have conducted guest immersions. What that looks like is one Target executive, one interviewer, one guest, three hours. We sit down and say tell us about yourself. Tell us about your family. What does a typical day look like?

And what you hear from all of this is you hear the stories that the guests choose to tell. We have to make our decisions in the context of our guests' lives and the context of our guests' lives will constantly be changing. The work is not done. The work will never be done.

So an example, in style, we (technical difficulty) position ourselves as our guests' style accomplished. What we learned was guests are not looking to Target to be the advisor or accomplice or that person who they are going to look to like they would a friend or their social network. Our style guests have a strong sense of their own style. They want a place where they can bring that to life.

Very often we write our objectives as what will Target get and having these conversations with guests puts people in the mindset of what will Target give. What can we give that will give the most to these guests who we just talked to and simultaneously, almost as like a nice side benefit, do the most for us competitively because we are talking about an opportunity space where we are best positioned to meet the needs of our guests.

(video ends)

Brian Cornell - *Target Corporation - Chairman & CEO*

Over the past several months, we've met with hundreds and hundreds of guests and for me personally, these immersion trips have been an invaluable window into the lives of the folks who shop our stores and sites and also those who don't. And there's no better way to understand what makes our guests tick than sitting in their living rooms or standing next to their kitchen sink. And when I walk into someone's home, they don't know I'm from Target. They certainly don't know I'm the CEO. They just know my name is Brian and I'm there to try and understand how retailers can do a better job of making their lives a little easier.

And that's where the truth starts to come out. When we asked them about their favorite retail brand, I can tell you nothing lifts our spirits more than when they say Target. But on the other hand, nothing cuts deeper than when you hear we are letting them down. And sometimes we hear both. But with each visit, we are walking away with new insights. Sometimes it's clarifying a simple nuance. Sometimes it's a really big provoking shift in our thinking. We thought we knew the guest. We really thought we knew the guest, but we've gained some valuable new lessons.

For example, we used to use the term you heard it last year, on demand, when we talked about the guest expectation in the digital world. Turns out that phrase does not connect with the guest. When we say on demand, they think about their cable box, not retail. But it's bigger than just getting the terminology right. It's really important that when we talk to the guests, they understand that we are listening to them, that we hear them, that we are not just talking past them. It's a really big difference. And we will continue to listen to our guests and draw these insights to further shape and refine every aspect of our strategy today.

So I recognize this is an election year. Last night was Super Tuesday and I'm going to steer away from anything to do with state-by-state results. But I will tell you that this year, at Target, we are placing our bets in California. This spring, we are taking 50 of our top enhancements that we've been testing across the country and putting them together in 25 stores in Los Angeles. A pilot we are calling LA25 and the goal is to see how we can improve the guest experience and grow sales when all of these elements are working together.

We are making product improvements the hero with more impactful presentations, fixtures and signage. We will make it easy for the guest to pick up online orders with dedicated service stations. Guests will see a floor pad filled with reinventions across the store. One of the things we were hearing loud and clear during our immersion visits is that there's absolutely no substitute for human interaction. A genuinely helpful team member can literally save the day or at least save the sale.

So as part of the test, we are adding more specialized team members to pilot more personalized services. We know a trusted advisor can let a guest know how many gigs they really need when picking out a new iPad, or which moisturizer is the right one for them if they have sensitive skin.

We are also rolling out a new team of digital service advisors to help our guests get the most out of Cartwheel and Target.com. Looking ahead, we will take everything we learn from LA25 and apply it to the designs for our next generation prototype store. But we won't wait until we ramp up LA25 before we take the proven winners and roll it to the rest of the chain.

For example, when it comes to style, our guests say context really, really matters. They need help seeing how items fit together. Right now, we are already deploying visual merchandising leaders to tell product stories and customize in-store presentations. Another prominent enhancement is Bullseye's Playground. We've already repositioned the front of the store as a family-friendly showcase for seasonal items. It's the exact same space, the same price points as the old section, but we are already seeing more than 25% growth in a large and very profitable part of our store.

Just last month, we were honored when FastCompany called Target one of the most innovative companies in retail for using our stores as laboratories and you can expect we will continue to keep testing, learning and iterating in the year ahead.

Now, by any measure, Cartwheel is a success story many times over, 22 million plus downloads, $3 billion in sales. We know our guests love the thrill of a great deal. But as you know, Cartwheel is just one element of what today amounts to a piecemeal loyalty strategy that includes our REDcard and REDperks, which we've been piloting in North Carolina.

We believe we can simplify the whole experience. We believe we've got a huge opportunity to identify more guests and bring them a broader rewards portfolio. We are focused on acutely understanding the guest lifetime value, getting to know them more deeply, their attitudes, their preference, their behaviors and then give them more personalized experiences and more personalized promotions, all in service of finding that sweet spot. What do we need to offer to make sure that guest chooses Target again and again?

We've hired Keith Colbourn as our new Senior VP for Loyalty and Lifecycle Marketing to lead this effort and while it's early days, I can tell you Keith is off to a great start.

Another key priority this year will be continuing to implement clear category roles. Now, you don't need to be a golfer to know you'd never want to play a round of golf with one club. You keep 14 clubs in the bag and every one of them, they count. A driver can take you hundreds of yards off the tee, but it's generally useless in the sand. A good player, well, she uses her putter more often than anything else. Every club has a different role.

And we look at our merchandising categories the same way. We will never be famous for selling bottled water or laundry soap, but we've got to have the right brands, the right pack size and we have to always be in stock because we know these items are key, they are essential to that Target run.

But we also know there are four categories, categories we've deemed signature businesses, where our guests want us to play and inspire them -- style, baby, kids and wellness. They represent about a third of our business and we are putting significant resources behind them.

In 2015, those signature businesses grew 3 times faster than the rest of our assortment and today, we are expecting aggressive growth as we go forward into the future. But there's also important insights that are coming back from that guest. We shouldn't think about each one of these categories as independent trip drivers or the singular reason why a guest chooses Target. Our guests have multiple categories on their lists, so the power behind our strategy is that we have to stand behind all four of these. Our job is to make sure we give the guest every reason to shop, discover and explore each of these signature categories.

And here's just a few highlights of what you can expect. When we are playing at the top of our game, there's no greater manifestation of our brand promise than our style categories. So we've made big investments to elevate product and improve presentation in all of our channels and the strategy is paying off. The results for our home business in 2015, for example, were the strongest we've seen in the past 10 years. And given the long leadtime and production cycle in these businesses, our guests are going to continue to seek marked improvements in quality, in our own brand home and apparel throughout 2015.

While our teams work hard to stay out in front of trends and offer guests a variety of aesthetics in every collection, we are also going to continue to innovate and reinvent our design partnership model that we pioneered. Just in January, just a few months ago, we teamed up with the founders of fashion site WhoWhatWear to co-create a fresh style collection. Each month, we will update that collection using social media feedback from our guests and I can tell you this line is off to an exceptionally strong start, selling twice as much product as we expected out of the gate.

As you know, our teams travel the world seeking design inspiration. They are always on the hunt for new partners we know our guests will love and for those of you who caught Good Morning America today, you saw some really big news. This season, we are pairing with another amazing brand, a Finnish design house made famous for their bold, eye-catching prints. Marimekko for Target, which will debut in April, will include a collection of more than 200 items celebrating the possibilities of Scandinavia's endless summer nights. Now we can only offer you a sneak peak, but I can absolutely assure you our guests are going to love the unexpected nature of this partnership.

Last year, we bet big on swim, both in digital and in store and we are seeing those investments bear fruit. We reclaimed our number one spot, the number one marketshare position in swim and we've grown the business 15% over the past two years. We think we will make a splash this season with terrific assortment, exclusive items and a campaign that celebrates style and inclusivity.

So far, we are really encouraged with the early results in digital, which sets the tone for the rest of the season. By any measure, we are really pleased with our performance in kids, but we know better to mistake good performance for potential and we think there's tremendous opportunity here for new growth. This year, we are introducing a pair of amazing new brands and we've taken our guests and their kids as partners every step of the way. Let's take a look.

(video begins)

Julie Guggemos - *Target Corporation - SVP, Product Design and Development*

When we decided to develop a new kids brand for home, we really wanted to involve our guests -- moms, dads and kids -- to find out what they really want and what inspires them. I am Julie Guggemos and I lead Target's internal design team and I am thrilled to introduce Pillowfort. We did a lot of research to develop this line, so this is a brand we truly co-created with our guests. We had them vote on the print and pattern. We had them vote on their favorite pieces.

What we heard from moms and dads alike, they want their kids' room to feel like an extension of their home. When we talked to kids, we found out they are fearless. They want to express their individuality and they are not afraid to reflect their personal style. Pillowfort is 3 times bigger than our current kids line. It's well designed, it's high quality and best yet, the value is unprecedented in the market.

All of Pillowfort's designs can be mixed and matched so every kid can truly make their room one of a kind. We are starting with Pillowfort and then in the summer, we launch with our new brand for kids apparel called CAT & JACK. In 2016, we are putting Target on the map for kids and I am confident that parents and their kids will absolutely love it.

(video ends)

Brian Cornell - *Target Corporation - Chairman & CEO*

We believe Pillowfort has the potential to double our kids home business over the next three years and I can tell you I personally love this brand and I think our guests are going to love it too. In fact, this weekend, we are hosting an interactive experience on the Highline Stage, about a mile from here and we are inviting guests to come play and have some fun with this new brand.

And while it's still too early to reveal too much about CAT & JACK, which will launch in June, we think this has the potential of being a multi-billion dollar brand and could help us grow twice as fast as the industry average. These brands are just a couple of the examples of the phenomenal work coming out of our product design and development team and that team for a long time has been a huge competitive advantage for Target.

What really makes this team tick is the way they put the guest at the center of the design process and build their teams to include a wide and very diverse set of experiences. Our teams include textile engineers, sustainability experts, trend spotters, even philosophers who develop products that make guests' lives feel better. Julie Guggemos is sitting right up front here, who you saw in that video, is here today to give you a firsthand look at the work during the reception after the presentations.

Last year, we also put a stake in the ground around wellness. We've had a unique opportunity to use our scale to help our teams and our guests eat better, be more active and find cleaner label products. As a category, wellness continues to outperform the industry. But as you know, wellness is a very crowded space. The key for us is to focus on offering differentiated merchandise and solutions and experiences in a way only Target can.

So this year, we will lean into programs like Made to Matter. We will continue to pursue partnerships with other great brands, like we paired up with SoulCycle for a 10-day city tour -- 10-city tour that we kicked off right after the new year. We saw a big opportunity to evolve our C9 activewear and the early read on our performance is really strong. And we will bring new food options into our Target cafes with some new partners. But during the year, you'll see wellness play a more prominent role in our corporate and social responsibility efforts in communities around the country.

All right, so I know all of you are eager to hear us talk about our plans for grocery. At $18.5 billion in sales, it's already a huge business for Target and last year, we promised we'd redefine our position in food. While our guests certainly have told us they appreciate the convenience of having fresh foods, we also heard that too often they were leaving underwhelmed and disappointed.

So over the last 12 months, we've talked to guests, we've certainly assessed our competitive set. We've done deep dives into the business and we've been tearing down every category and every process. What we quickly realized, the deeper we dug, the more fundamental challenges we found. We know repositioning food is going to be a much bigger task than just reconfiguring part of the store.

Looking across categories, we found out our marketshare was out of balance. We were strongest in the categories with the least growth potential. Too much of our assortment is in the center of the store while the true growth opportunities exist around the perimeter. We found we were touching product far too often, driving up operational costs and complicating our out-of-stock position.

The bottom line, until we address the fundamentals, things like consistency and reliability that start with offering fresh produce, our guests won't give us credit for the overall progress we are making. So we are doubling down on food fundamentals. And we know, given where we are starting, given where we are today, we've got lots of room for growth and while this won't start with a big, one-time reset, a one, big-time reveal, we think we will transform virtually every element of the business.

This year, you'll see us working to earn more credit for organics and dramatically improving freshness across the assortment. We are moving through the assortment item by item, starting in the fields and carrying it all the way to the sales floor. We are also focused on driving penetration with our own brands, including the newly relaunched Market Pantry. And we brought in a lot of external talent. They are also laser-focused on business basics. They are focused on assortment and pricing and promotion and presentation and they've zeroed in on those key seasonal moments when we absolutely need to shine.

And the good news, the strategy is working. Our guests are noticing a better experience every time they shop. They are noticing that we are adding more organics, more specialty items, more exclusives. They've noticed that freshness is improving. Overall, our comps in grocery outpaced the rest of the store in both the third and again in the fourth quarter.

It's a big turnaround after lagging our overall performance for several years. We know grocery is highly complex, but it's also very important to our guests and there's a ton of work going on right now behind the scenes that you will never see, but we look at each and every day.

Importantly, as our business continues to perform, we know our guests are voting with their feet and they are telling us that we are heading in the right direction. But turning this business around will be a multi-year effort and it's not going to be easy. But our teams' mantra overall is that it's better to get it right than to get it done fast and that's the approach we are going to take as we move forward with food.

So we've spent a lot of time today talking about the fundamentals and the things we need to do to position Target for the future. But I think everyone in this room would agree the path of long-term prosperity must include a renewed commitment to innovation, creating a culture of curiosity and exploration within our organization.

I can tell you innovation is in our blood. It's part of the Company DNA. But we have to put the right conditions in place to encourage innovation and allow it to thrive. So we've intentionally assembled a small, but mighty team and asked them to think well beyond the box. We've hired experts.

We've brought in entrepreneurs in residence, people with a proven track record of success. Their jobs are to hunt down new ideas, forge new partnerships, teach our teams how to bring new products, solutions, brands and business models to market. Their pursuits are tightly aligned with our signature businesses and laser-focused on driving profitable growth for our core.

You might have seen the coverage of our partnership with IDEO and MIT's media lab around the future of food. The reason we are doing this, well, it's simple. We are operating almost a $20 billion food business and we know we haven't tapped the full potential. We need to understand where the market is headed and we need to ensure we get there first.

You'd be hard-pressed to find a better use case for the Internet of Things than in a baby's nursery. But we owe it to our guests to curate the best products, wade through all the digitally-enabled gimmicks that are out there and find items that actually solve problems.

So our team is taking a portfolio approach and our investment strategy will continue to be highly disciplined, but we are also giving this team a little room to run. Some of the bets will pay off over the longer horizon, but some will start showing up in our assortment in a matter of months.

Of course, these are just a few initiatives that we have underway in 2016. We've made lots of progress, but as I've said many times now, we know we've got a lot of work left to do. So in a moment, John Mulligan will share more details around the fundamentals and Cathy Smith will walk you through a careful analysis of our 2016 algorithm.

But before I go, I want to make it clear. The path we are laying out today is a path for profitable growth and this is how we are going to build the foundation to sustain it. So let me turn it over to John who is going to walk you down that path to profitable growth in the future. John.

John Mulligan - *Target Corporation - EVP & COO*

So you just heard from Brian that this part of the program isn't about the sexy stuff. Fair enough. Unfortunately, for all of you, I'm afraid I'm about to make you -- demonstrate to you exactly what he meant by that. But what Brian also said and what I firmly believe is that Target's future rests on getting the fundamentals right.

Over time, we've been adding stress and complexity to systems that frankly were built for another time to keep pace with our changing guests, to consistently deliver what our guests expect and position Target for the future, we must zero in on critical pieces -- supply chain, stores, technology -- and put our guests at the center of all of it.

For 50 years, we were working off a pretty linear system. It started by moving product from our vendor partners into distribution centers and then out to our stores. The whole system moved from the left-hand side of the page to the right. Today, the world couldn't be more different. Today, guests can still shop our stores to get the products they need and even pick up a few they didn't know they wanted. But they can also shop online and have the order delivered to their home or in the case of Anna planning a birthday party on the train, they can order online and pick up in store without missing a beat. Our guests are calling the shots and we want them to do just that.

We continue to send product to stores to support an in-store shopping experience. But we are also shipping directly to guests from stores, DCs, even vendors and we are sending products to stores for online order pickup. In fact, the number of Target.com orders our guests chose to pick up in stores grew by 60% in the past year, almost double our full-year digital sales growth. And sure, overall digital demand is growing, but this also reflects our guests' increasing desire for the convenience of picking up their orders in store, usually within the hour.

All these changes are in the name of making sure we can deliver the products our guests want fast. In our stores, they are more important than ever. They've become showrooms, fulfillment centers and pick-up locations. And the people inside them are there to help.

Sounds great, right? But here's the rub. We can't continue to add this kind of complexity without ensuring the foundation can support it. Earlier, you heard a little bit about our guest immersion experiences and I can tell you from my own guest conversations that Brian's summary was right on. Hearing from guests was both uplifting and humbling to realize how much they love us and how much work we still have to do to deliver the experience they expect.

We've talked to guests all over the country, but let me relay what I heard from a young man in Chicago, a newly engaged millennial sharing his first apartment with his fiancee. He didn't think about a store experience or a digital experience, whether he is making a Saturday morning Target run, browsing Cartwheel offers or making his list on our mobile app, he thinks of it as a Target experience. And he's not unique from so many of our guests. We have to build our operations through that lens where channels don't matter and our delivery is seamless regardless of what the guest chooses.

Fortunately, we already have an arsenal of assets that work to our advantage. We have 40 well-positioned distribution centers, a widespread network of 1800 stores and a team that knows the business and the guest. The main task ahead of us is modernizing how we put those assets to work in ways that help us meet guests' expectations now and well into the future.

And that's where my team's work begins. I've been in retail for nearly 20 years and I have walked thousands of stores and here's a secret a lifelong numbers guy never wants to admit. You don't even need to look at the data to determine the operational health of a store. I'm not giving you permission to do this, but all you have to do is poke your head in the back room. If it's well-organized and relatively empty -- simple, A+. If it's packed full of product, we've got a problem on our hands because ironically lots of inventory typically correlates with lots of out-of-stocks.

So in the past year, we've put a lot of thought into tackling these challenges and we found it doesn't necessarily require investing in new, but often entails using what we have, like systems and talent, more effectively to deliver a better experience to our guests. To reduce back-room inventory, we are redesigning shelf presentations to put even more product on the sales floor and surgically reducing the number of SKUs in particular categories. We are also optimizing case pack sizes to get down on the number of times our teams are touching a product.

Imagine for a minute that a store receives 24 jars of peanut butter in a case, but the shelf only holds 18. So instead of being able to pull a case pack directly from a delivery truck to the sales floor, teams have to break open the package and store the extra six jars in the back room. And as soon as we sold through the shelf, they have to make an extra trip to the back to replenish. You don't need an advanced degree to see the math on that scenario is not good. Three times the touches and a huge drain on payroll productivity. So we are working with vendors to send case-pack sizes that match each product's rate of sale and allotted shelf space.

When you talk to our guests, the number one pain point is that we are out of stock and when it's for an item we've promoted, it's a double whammy in disappointment. We've offered a great deal, they came to the store and when they got there, they couldn't buy what we said we would sell them. So we established an action team last summer that has been digging category by category into the root causes of persistent out-of-stock challenges and the results have been very positive. We finished 2015 with out-of-stocks 40% lower than the year before. And for a set of focus items we've designated in essentials, our out-of-stocks are better than we have ever measured.

On top of that, those results came from process changes that are simple, repeatable and sustainable. So in many cases, we can apply the same fixes across the business. What we've done to reduce out-of-stocks in paper towels, for instance, is working for us in diapers, given they are both high frequency, large pack size products.

The solutions we've started to put in place are helping to address some of the fundamental issues, but we've uncovered other parts of our operations that need more fundamental change. It was clear we needed a dedicated team that could focus on transforming our supply chain to lay the foundation for tomorrow without the burden of the all-consuming responsibility of running day-to-day operations.

As a result, we carved out a small team last fall comprised of functional experts from across the organization and we asked Karl Bracken to head up this effort. He had led several parts of our supply chain and merchandising functions and set up our flexible fulfillment capabilities. After identifying a long list of work we could tackle, the team narrowed on a focused set of priorities that would have the biggest impact.

For example, work is already underway to solve for the variability of when our products arrive in our distribution center. Some products arrive late, some products arrive early and in general, the windows we specify for our vendors are far too wide. That inconsistency upstream makes it harder to keep our stores in stock or provide tight shipping windows downstream.

And we are working with merchants to change planogram designs, cutting the number of times we have to replenish our fastest turning products, which reduces out-of-stocks and the amount of inventory needed in our back rooms. Ultimately, the biggest opportunity is to optimize how we forecast, allocate and replenish products across our supply chain.

Years ago, we knew exactly how to plan for in-store demand and move product to the right store at the right time. As we've started to use our network in many different ways, fulfilling guest orders that come from a variety of channels, we've needed to improve how we plan and move product so that it's ready as soon as the guest needs it. Nailing this core part of our supply chain operation will unlock incredible growth potential.

There's a lot of great work underway and we are pleased this week to announce a new leader of our global supply chain operation who will bring proven experience and fresh thinking to help build on our progress. Arthur Valdez will join our team later this month as EVP and Chief Supply Chain and Logistics Officer. He has spent his more than 20-year career in operations for a variety of brands and products, but comes to us most recently from Amazon where he led the company's international supply chain expansion and worldwide logistics function.

Based on his background and my conversations with Arthur, there's no better way to describe him than a creative supply chain strategist. He has designed efficient, cost-effective and fast operations and developed innovative ways to move product closer to the consumer. His expertise and proven track record have signaled that he's the right person to help move Target forward and I can't wait for him to come onboard.

While our teams are focused on the entire supply chain, we are also paying specific attention to food. Brian mentioned our evolving grocery strategy and our teams are adjusting our operations to support that vision. As part of that effort, we've brought in experts to assess our fresh food supply chain and are dedicating new resources to raise the bar with in-store presentation.

At the same time we are working to shore up the fundamentals, we've also begun to develop smarter ways of using our distribution network to move product to our guests. For years, we've used our regional distribution centers, or RDCs, to send frequent shipments in bulk only to stores. And we used our online fulfillment centers to ship individual Target.com orders directly to guests.

But, today, we are blurring those lines of distinction. Internally, we've integrated our digital in-stores inventory systems so we can look at where we have product across our network and fulfill an order using merchandise that's closest to the guest who placed it regardless of what type of building it's in. We recently equipped one of our RDCs to send Target.com orders to guests and will add that capability to more buildings throughout the spring.

The ability to use product that's already close to the guest improves our delivery time and reduces our shipping costs. Good for guests and good for business. As we add more capabilities to our DCs, we are also turning three of our existing buildings into warehouses for slower turning, more seasonal products that have variable purchase patterns like apparel. Storing that type of merchandise separately clears the way to process our fastest turning product even quicker, while also giving us the ability to pulse the right amount of seasonal product to the right store at the right time based on real-time demand.

The advantage we get from adding these special nodes to our network is certainly related to reliability, but also enables us to be more agile in how we respond to guest demand. Take rain boots. Sales are dramatically impacted by weather patterns and while we know we will sell more in Seattle than Arizona, exact quantities are much less certain. Rather than pushing out a predetermined amount of product to all of our DCs around the country, we can store rain boots in a DC designated for seasonal product and ship the right amount to the areas of the country where they are needed as they are needed.

This winter, California has seen a lot of much needed rainfall. Rain boots and umbrella sales are much higher than we had predicted a year ago. By keeping product like this separate from our fast-moving network, we can more easily move additional product to California rather than leaving it in hundreds of stores' back rooms and avoid markdowns in areas where demand is lower than expected. Last month, we opened the first of our repurpose buildings in Rialto, California and have announced plans to open two more, one in Illinois and one in Virginia, this spring.

When you think about the things that Target -- that give Target our most significant competitive advantage, you'd have to put our nearly 1800 stores at the top of that list. And while there is a lot of talk about the future being digital, physical stores still account for more than 90% of all retail sales across the industry. For Target, we have no doubt that our stores will continue to be a key differentiator well into the future. We just need them to serve our guests in a new way. In fact, our stores filled about 30% of our total Target.com sales in 2015 and nearly 50% of our digital electronic sales in Q4.

Ship from store, when we ship a Target.com order from our store back rooms, is the flexible fulfillment options that's seen the most growth in the past 12 months. A year ago, we were shipping online orders from fewer than 150 of our stores. This fall, we more than tripled that, meaningfully producing transit time and putting us within a two-day delivery time for 99% of US guests with store-eligible items. And we plan to increase our capacity to ship even more orders from these locations in the future.

Today, these capabilities are capturing sales we otherwise would have missed without needing to build any new distribution centers. In fact, more than a third of last year's ship-from-store orders saved a sale when our fulfillment centers were out of stock. Here's a closer look at how it works.

(video begins)

Unidentified Company Representative

Ship-from-store is a win for Target because we are able to leverage assets that are already well-positioned in our supply chain. Our stores are already close to our guests. When we first started shipping from store in 2014, we rolled it out to 133 stores. Over the course of the last year, we are now shipping from more than 450 locations.

It all starts with the guest placing their order on Target.com. Then we have an order management system that figures out the best way to fulfill that for our guests. If the store is the best way to fulfill that order, it comes into the fulfillment application that the team members access on their handheld device. The system will automatically lead the team member on the most productive path through the store. Once the team member is done picking the orders, they bring it back to the pack-and-ship work station to securely pack the items for the guest. Once they complete packing, they stage the items to await carrier pickup. This process is completely invisible to the guest. All they know is that they are getting their online orders faster than ever before.

(video ends)

John Mulligan - *Target Corporation - EVP & COO*

As we continue to place higher expectations on our stores, we need to keep investing in people, processes and technology that help them do a job. As Brian mentioned, our LA25 pilot is testing improvements to the order pickup experience, but we are also making enhancements across the chain, rethinking the store layout and the technology systems, as well as simplifying the backend operations to reduce workload for the team.

We hear this all the time. It's the in-person interaction with Target's team members that can make the in-store experience so valuable. Which iPhone model is on sale? How do I pull these home decor pieces together in my own space? I bought the wrong size sweater online, can I return it? Here let me show you or, yes, I can help you are some powerful words and go a long way in making it easy for our guests to get what they need.

As we are working to move product more efficiently, we also have to remove some of the operational tasks so teams can spend more time helping the guest with those questions. In fact, the work we are doing to improve out-of-stocks and reduce back-room inventory is already showing big potential to help those in-store team members to devote more time to service than checklists.

As we follow through on those initiatives, we were excited to bring Janna Potts and her more than 25 years of experience in managing our field operations and leading our teams to the helm of the stores organization. Janna and team are designing a strategy that will shift a one-size-fits-all approach to service in every category toward elevating service levels in our key growth areas. And overall they are focused on making it easier for our teams to find guests as soon as they need something instead of waiting for the guest to even ask the question.

Now let's talk about a topic you all know well. Our guests more and more are choosing to live and work in cities and if you know an undeveloped 10-acre site in Manhattan with a couple hundred parking spots at a reasonable cost, let's talk because sites like that simply don't exist. So we are testing more flexible formats designed to bring Target closer to our urban-dwelling guests. In 2015, of the 15 new stores we opened, 9 of them were flexible formats. We put a Target in Chicago's Streeterville, not far from Navy Pier; in Boston, with actual sightlines into Fenway Park; and we just announced a future store about a mile from here in Tribeca.

It's not overselling it to say that our guests really love these stores and not just because they love Target. We hear over and over again that it's because of the care we put into building unique assortments made to order for their neighborhoods, neighborhoods with young families who want diapers and birthday decor, office workers who want snacks and grab-and-go meals. College kids solo cups and ping-pong balls. And by the way, whether you understand that last combination is likely related to your age or the age of your kids.

We are also paying attention in these markets and making changes to assortment and presentation like setting endcaps with water bottles, coolers and expanded game day merchandise in our Boston Fenway store just in time for this year's opening day. Let's take a look at Streeterville.

(video begins)

Unidentified Company Representative

We are in the Streeterville neighborhood of Chicago, most famously known for Navy Pier and Michigan Avenue. Even though there is a lot of tourism in the area, there's also a lot of residents that live in condos and high-rises. When you walk in the store, you'll see exposed brick walls, wooden beams that's very unique to the building and the history of this neighborhood.

As you shop our store, the products that we have are very localized whether that be craft beer, Chicago sports teams or our partnership with apparel designer, Todd Snyder. Something that is new at our location is Starbucks Evenings. What you will find is an expanded variety of food options, as well as beer or wine.

Our guests that shop at our store are usually walking on foot or traveling by the train or the bus, so you'll see a lot of grab-and-go options, as well as a lot of healthier snacks knowing that our guest is really looking to live a healthier life. We've been really open to our guest feedback. From that, we've been able to refine what our guest is looking for so when they come and shop at our store, it's their Target. It's what they want. It's what they need.

(video ends)

John Mulligan - *Target Corporation - EVP & COO*

And while the in-store experience is carefully designed to fit a variety of sizes, even down to 10,000 square feet, services like order pickup and ship-to-store put the entire Target assortment within reach and turning these stores into urban fulfillment centers.

Flexible fulfillment makes shopping at Target even more convenient, especially for a guest who would rather not have a new iPad sit in the foyer of their eight-unit apartment building all day long hoping it's still there when they get home from work. And it brings new guests into our stores.

In addition to concentrating these formats in urban, densely populated areas, we also see big opportunities near college campuses. Guest research tells us college-age students already love our brand and want to be able to shop our stores and market research shows us that the lack of overall retail options on and around campus from basic apparel to fresh food is a real concern. Our campus strategy allows us to better serve a particular market while also building a stronger relationship with guests at a critical life stage. These students are newly independent adults on the verge of becoming our core guests, digitally-minded millennial families who love to shop.

Our first foray into campus life started with a test near the University of Minnesota. Since then, we've opened new stores near Berkeley, USC and the University of Maryland and in 2016, we will be at Penn State and near several colleges in Boston with more to come in 2017.

So I've spent a lot of time today on the big physical stuff, supply chains and stores, but the technology that keeps it all humming is just as important. It's the central nervous system of our entire operation. So to enable the changes we are putting in place, we need to make the right investments, working in close collaboration with our CIO, Mike McNamara.

Last year, we were thrilled to bring Mike on board from Tesco, which has some of the most sophisticated retail infrastructure in the world. And he has a very clear philosophy on pursuing fewer, more impactful projects so his team can accomplish substantial results in a shorter period of time.

Case in point, our in-store service tool. A year ago, when a team member needed to look up a product or answer a guest question, the system would crash far too often and that meant the guest was out of luck. Safe to say the tool needed significant improvements in stability. Mike's team zeroed in on fixing this and within a few months cut the number of incidents in half.

Across the Company, Mike and his team are prioritizing investments and systems that help our supply chain better forecast and allocate product, enhancing the back-end functionality that enables us to grow our flexible fulfillment options and continue to build our available to promise technology to give guests a clear view of inventory and delivery timing.

And as we learned from our incredible success during Cyber Monday, with traffic more than 2 times what we planned, we have an opportunity to serve even more guests as digital demand continues to rise. So just as we are building an operational foundation for the future, we are making sure to build the capacity to support digital growth.

I've talked a lot about some of our specific priority areas, especially within the supply chain. But, across the organization, we are applying a focus on being more efficient so we can be more effective. This fall, a proven industry leader in operational excellence, Anil Gupta, joined Target to improve how we operate as an organization. Her team is partnering across the Company to build a consistent lean process culture and they've focused on improving some of the highest impact work within the business such as designing processes that increase our inventory accuracy so we can fulfill even more of our guests' orders, or planning promotions that are both meaningful to our guests and support profitable growth.

We are in the early stages, but I'm really pleased with the team's initial progress. For example, after just a few months on the job, we've already reduced the number of steps it takes to add new product to our inventory. You might think that sounds like small potatoes, but we set up tens of thousands of items every year and making sure it's done fast and done right is critically important. Dimensions, attributes, weight, color, pack size, it all has to be exactly right, especially because it affects every aspect of a guest's journey from how our store teams find helpful product details, to the quality of our site search function, to how we ship guests' orders.

In the short time since they formed, Anil's has simplified this core task while also improving data integrity, bringing benefits to the guest experience, as well as our business. This is only one example of the many ways this team is working to make our operation more productive, cost-effective and efficient.

As we are putting our existing assets to work in new ways and building capabilities we need to support continued growth, we are setting the foundation to help us deliver an unparalleled guest experience, no matter what the future holds for retail. Our priorities and vision are no longer just a strategy. We've moved from conceptualizing what we need to do to putting that work in motion. We are becoming more agile. We are increasing reliability and we are simplifying the parts of our business that are unnecessarily complicated.

We are building the bedrock for innovation and sustainable growth, not only for today, but well down the road. And now that you look at it and how all of this operation will work will unlock future growth for Target, I think it is actually kind of sexy after all.

With that, I will turn it over to Cathy to talk about our financial performance and long-term goals.

Cathy Smith - *Target Corporation - EVP & CFO*

Thank you, John. At this meeting last year, Brian and John first presented our strategic plan along with the details of our financial algorithm. Obviously, after I arrived, one of my first priorities was to work with the team and immerse myself in the details of our business plan and financials. As a result of our work, I'm very confident that the plans we have in place today will allow us to continue to deliver on our goals just like we did in 2015.

Not that long ago, growth in retail meant adding a lot of stores. Today, our growth plans are focused on using the assets we have differently. And at Target, we are fortunate to have many great assets to build upon. We have one of the strongest brands in the world and a unique relationship with our guests. We have 1800 well-located, well-maintained stores that are fun to shop. We have a guest-focused team both at headquarters and in our stores that differentiates us from all other companies, not just retailers.

Our product design, development, sourcing organization keeps us ahead of the trends and allows us to offer beautifully designed, innovative and fashionable merchandise at an amazing value. And we have built an impressive array of owned and exclusive brands, many of them $1 billion brands that are guests love and trust.

Target has an enviable set of assets and our growth plans today are focused on using all that is Target to serve our guests in new ways and more reliably. Brian and John have already taken you through a host of initiatives we are pursuing to continue delighting our guests, which will drive profitable growth for Target. And I can tell you, after reviewing each of these initiatives in detail, I am confident they will support our growth consistently and our goal to deliver a 3% plus comp sales growth.

In our signature categories, we see amazing potential in our two new kids brands, Pillowfort and CAT & JACK. Specifically, we believe that Pillowfort has the potential to double Target's sales in the category over the next few years and we expect CAT & JACK will become one of our biggest brands.

In food, just think about the opportunity that we have in front of us. If guests who already shop our food assortment added just one extra food item into their baskets, we would see billions of dollars of incremental sales. With the sale of our pharmacies and clinics to CVS, more than 80 million members can now -- of their PBM network -- can now fill their prescriptions in a Target store. And even if we capture only a fraction of their pharmacy visits, we will increase traffic into our stores.

Based on our initial work to create a more seamless and holistic loyalty program, we believe we have the potential to double the number of guests we are reaching with our loyalty vehicles today while deepening our relationship with our guests.

Let's look at the benefit of reducing out-of-stocks. Consider this example from the holiday season. About 40% of our digital orders fulfilled by our stores consisted of items that we were out of stock in our Web fulfillment centers. This allowed us to preserve sales we would have missed without the access to our store inventory.

In our Chicago test last year, we demonstrated the potential from localizing a store's assortment to fit its neighborhood and we saw a 1% to 2% sales increase in those test stores. As a result, we are making changes to our systems and processes that will allow us to scale our work in Chicago, more broadly harnessing this potential overtime.

And finally, we are in the early days of realizing the potential from our new flexible formats. We have a huge opportunity of untapped markets we can reach with these new stores, bringing Target to new guests and new guests to Target. Each store is made to order with a unique assortment tailored to its neighborhood. I have visited several of these stores around the country and I'm always impressed by how they continually test and learn and actively seek feedback from their guests. For instance, in our downtown San Francisco store, they've added more healthy grab-and-go snacks and more party supplies in response to guests in nearby office buildings.

In addition to these initiatives, digital will continue to play an important role. As you know, more and more often, guests start their visit to Target on a mobile device. They research products and prices on our site or a mobile app and on social media platforms like Pinterest. They make lists, order items for store pickup and search for coupons and explore Cartwheel. They do this before and during a trip to one of our stores.

Our guests want a great Target experience in all the ways they interact with us regardless of how they choose to transact with us. This means we will continue to invest in digital capabilities that will help our team members to better serve our guests and enable our guests to seamlessly experience Target. All together, we have a powerful set of growth initiatives that we will continue to pursue in 2016 and beyond.

Some of them, like category roles, have already proven their ability to shape our business results and others are still in early stages, but they have some common elements. They start with a focus on our guests, they leverage modern retail fundamentals, they incorporate digital capabilities and harness our existing assets. All together, they support our goal to grow comparable sales by 3% or more over time.

While growth is the most important part of the financial algorithm, sustainability of earnings is next. So in addition to evaluating our growth initiatives, I've worked with the team to understand the drivers and sensitivities of our operating margin. And I've really gained an appreciation for the resilience of our business.

Those of you who have been following Target for a longer period of time already know operating margin rates in our US business have been amazingly consistent over time. I've spent a fair amount of time in retail, so I am well aware of the challenge of maintaining profit margins in an incredibly competitive space. But Target has a proven model supported by a team that continues to innovate, offset challenges with opportunities, evolve with our guests' changing behaviors and leverage our assets in new ways, all the while supporting our Expect More Pay Less brand promise.

In 2015, the team made a lot of progress on the $2 billion cost-savings goal that Brian and John first laid out last year. These savings create the capacity to invest resources that support growth initiatives and deliver on our longer-term financial goals. As we enter 2016, we are on track to meet or exceed that $2 billion savings goal by the end of the year and we believe we have more opportunity ahead of us.

For example, we invest a lot in promotions to provide compelling value to our guests, billions of dollars annually. As I mentioned last week on our earnings call, I believe we have an opportunity to enhance their effectiveness, especially in the fourth quarter. As a result, we are taking a comprehensive look at last year's promotional activity and I'm confident we will be able to find additional savings we can reinvest into the business.

Now let's turn to capital deployment, beginning with our long-standing priorities. First, we always invest in the business on projects that meet our strategic and financial criteria. Second, we support the dividend and plan to build on Target's legacy. We've paid a dividend every quarter since we went public in 1967 and increased that dividend every year since 1971. Finally, we used share repurchase to return the excess cash beyond what's necessary to support those first two priorities within the limits of our A credit rating.

So now we can combine all of the plans we've discussed today into a longer-term financial algorithm for Target and for those of you who were here last year or saw this presentation, this should look pretty familiar. We expect to grow our comparable sales 3% or more annually in 2017 and beyond. While new flex format stores should contribute additional sales, the lion's share of our growth is expected to come from existing assets.

Over time, we are planning to maintain EBITDA margin rates in a range around our expected 2016 rate of 10.5% plus or minus. This reflects recent trends adjusted for the sale of our pharmacy business. Within the drivers of EBITDA, we are expecting annual gross margin rates in a range around 30% and SG&A in a range of 19.5%. These rates are broadly consistent with 2015 performance adjusted for our pharmacy sale.

Beginning in 2017, we expect some leverage on the depreciation and amortization line, providing about 5 to 10 basis points a year given our sales growth and capital plans. We expect to invest $2 billion to $2.5 billion in capital expenditures per year, focused on technology, supply chain investments to modernize our operations and to support flexible fulfillment. We expect to grow dividend 5% to 10% annually with a goal of moving to a 40% payout over time. And we expect to return $3 billion annually to our shareholders through share repurchase within the limits of our current A credit rating.

All of this means we will deliver an annual adjusted earnings-per-share growth of about 10%. About half of this growth will come from our earnings with the other half coming from share count reductions. And of course, when you consider the dividend yield on top of our EPS growth, we are positioned to deliver a total return of well over 10% annually.

And finally, John told you last year that our financial algorithm is designed to deliver after-tax return on invested capital in the mid-teens or higher in the next five years. Last year, excluding the gain from the pharmacy sale, this metric was already a very healthy 13.9% and if we meet our goals over the next several years, we will be well-positioned to deliver one of the highest after-tax return on invested capitals in retail.

Now if you are like me, you focus most of your time thinking about the long term, but I know you have a job to do and I promised last week I would give you a little bit more detail into our 2016 financial plan. Beginning with comparable sales, we expect to grow 1.5% to 2.5% in 2016, which is prudent given the current environment. Of course, because of the sale of our pharmacy business, total sales are expected to be down 3% to 4% in 2016.

On those sales, we expect our 2016 EBITDA margin rate will increase meaningfully from last year, reaching approximately 10.5% this year. This reflects a small increase in our underlying profitability combined with the benefit of the pharmacy sale. And it's expected to be entirely driven by an increase in our gross margin rate due to the removal of the pharmacy sales.

On the SG&A line, we are expecting a slight increase in the rate this year reflecting intentional investments in our team. These intentional investments include things like the digital merchants that Brian mentioned earlier, as well as investments in headquarters talent and technology and data science areas. Also, expense this year will include the cost of reissuing our chip and pin REDcards to our guests.

I want to add that both our gross margin and our SG&A expense rates will benefit from the cost savings I described earlier. These savings will allow us to continue to invest this year in product quality, store service and headquarters talent and maintain our EBITDA rate performance in line with our historical results.

Moving to consolidated metrics, our 2016 interest expense in dollars is expected to be about flat to last year and we expect our effective income tax rate to be between 35% and 36% for the full year.

Regarding capital deployment, we are planning to spend about $1.8 billion in CapEx this year and I'm confident we are investing in the right things with the right amount. Namely, we are investing in technology and our entire supply chain to modernize our operations, enhance the guest experience and build the foundation for Target's future growth. We will recommend to the Board a 5% to 10% increase in our quarterly dividend this year and we are planning to invest about $3.5 billion or more in share repurchase in 2016. This is higher than our longer-term capacity in light of our year-end cash position.

Combining all of these metrics, we expect to generate full-year adjusted earnings per share of $5.20 to $5.40. This EPS growth is a little higher than our longer-term financial plan, reflecting the expected share repurchase benefit of the cash from the sale of our pharmacy business.

Today, you've heard a lot about our business and how our strategic priorities remain consistent. You've also heard a lot of detail to support how we will continue to deliver healthy top-line growth and healthy shareholder returns. But what I hope you've heard most today is the voice of our guests. Our goal is to have our guests fall in love with Target all over again every time they shop.

I recently had the opportunity to sit with a guest in her home for several hours. It was so great to hear how many times Target has made her life easier from ordering online and picking up in-store to delivering a wonderful holiday experience for her family. Without knowing where I worked, she quickly blurted out I love Target. I know I will never get tired of hearing that. With that, I will invite Brian and John back up to the stage and we will take your questions. Thank you.

QUESTIONS AND ANSWERS

John Hulbert - *Target Corporation - VP, IR*

Thanks, Cathy; thanks, John.

Oliver Chen - *Cowen and Company - Analyst*

Oliver Chen, Cowen and Company. Regarding the loyalty program and the opportunity for personalization, could you just speak to what you see as the next opportunity in loyalty? And related as we think about Target for the long term and investors think about long-term Target, what would you say are your real competitive advantages as Amazon really seeks to also try to be very competitive in consumables and apparel?

Brian Cornell - *Target Corporation - Chairman & CEO*

Oliver, I'm going to start and we are fortunate enough to have Jeff Jones sitting right up front, so I'm going to turn it over to Jeff. But as Jeff looks for a mic, one of the things that we are clearly looking at, and I talked about it from the stage, is the fact that we think we have an opportunity to bring integration into our current programs. We've got a number of different vehicles out there today and an overall theme you've heard from our team is simplification. How do we make sure it's really simple, but how do we really build a different relationship with our guest? And the nature of that, they are not just loyal to us, but they recognize we are loyal to them. So with that, let me turn it over to Jeff.

Jeff Jones - *Target Corporation - EVP & CMO*

So you've heard so much about Cartwheel and REDcard. Those are two really important programs that work in different ways, but allow us to identify a large number of transactions. What you haven't heard a lot about is the pilot of REDperks, which we completed in Raleigh-Durham. So REDperks was an idea, which was what's the value of a non-tender loyalty rewards program in the Target ecosystem and we are really, really pleased with what we saw with REDperks.

So what you will see us do as we move into this year is to simplify and integrate those programs and so the power of non-tender rewards points, the power of 5% savings every day, personalized discounts with Cartwheel in a simple, single sign-on, one barcode checkout kind of program all on the mobile device.

And the key to personalization for us has to start with identifying a substantially larger number of guests than we do today. So the more we have our guests opt into a program like this that I'm speaking about, the more we learn about their attitudes, their preferences and their behaviors, the more we can really identify them, deliver individual value to them and start investing more of the markdowns that Cathy mentioned in the guests that matter most based on lifetime value.

So that's the shift that you will see us make based on two really successful programs in Cartwheel and REDcard and what we've seen with the power of non-tender loyalty in REDperks.

Brian Cornell - *Target Corporation - Chairman & CEO*

Thanks, Jeff.

Robbie Ohmes - *Bank of America Merrill Lynch - Analyst*

Robbie Ohmes, Bank of America Merrill Lynch. My question is on localization. It's something that has been talked about in the past by Target over the years and never has really happened. And Mr. Mulligan, I think -- I don't want to misquote you -- but I think something like you said 93% of the items in a Target store are in every Target store, I think in the past something to that effect. So the same assortment everywhere.

I look at all the initiatives you guys are doing. They sound great, but what has changed that will allow Target to be more local and why should we not worry that all these initiatives will play out and there won't be risk to you maintaining that 10.5% EBITDA margin?

Brian Cornell - *Target Corporation - Chairman & CEO*

John, do you want to talk about the work on localization?

John Mulligan - *Target Corporation - EVP & COO*

Yes. On localization, I think you are right. We've done some in fits and starts and we saw this in Chicago last year. We were able to maintain it, but it is duct tape, baling wire and a lot of heavy lifting because we don't have great process technology sitting behind it and the supply chain to support it.

So the difference is now we are working on the process, the technology and the supply chain to support it and it's one of the reasons we've slowed down on localization. We are not ruling it out everywhere. We've said, okay, we tested it, we certainly like the results, outstanding results, but we don't have the ability to roll this out everywhere and be successful.

So we are working right now on the back-end technology that will allow us to build planograms that are localized for every single store. There's a store element where we need the right team members in there who can help us identify what the right products are and how we get that information back to headquarters and get the right product flowing through our supply chain and then a supply chain that's capable of dealing with an enterprise assortment but getting the right SKUs to the right part of the country at the right time. And so those are capabilities we are working on building that we are in the process of right now.

Brian Cornell - *Target Corporation - Chairman & CEO*

The only thing that I would also add, and John has talked about the fact that we certainly tested this in Chicago. We are going to continue to test this in the LA25 stores and we've seen the results. But as we think about localization, we are not talking about changing tens of thousands of items. In many cases, we are changing 3000 or 4000 items that make us much more relevant in the local market, but we've got to make sure we can do that 18,000 times -- or 1800 times.

So to do that, we've got to have the right back-end technology. We've got to have the right processes and systems in place, but we know through the testing we get a very powerful lift in comps. We get greater engagement with the guests because they recognize we've got the right local assortment and sometimes it's not what we add, it's what we take away. It's making sure that in Phoenix, Arizona or Miami, Florida, we are not sending them hats and scarves and gloves. So it's also taking certain things out to make sure we are locally relevant.

But with each one of these initiatives, we are carefully testing, we are validating the results to make sure that we are getting the right return on that investment. But to do this right, to do it at scale, to do it 1800 times, we've got to have the right back-end processes, we've got to have the right data science behind the choices we make and we have to be able to make sure we can do it on a consistent basis. So we see significant upside and as we build those capabilities, you will continue to see that expand into local markets.

Michael Lasser - *UBS - Analyst*

It's Michael Lasser from UBS. My question is on your longer-term guidance of 3% comp growth and maintaining the 10.5% EBITDA margin. Hopefully you can describe some of the factors that are going to allow you to maintain that level of profitability in a world where there is clear and obvious pressures on your margins over time given the price transparency of the retail landscape, the fact that you are now shouldering the burden of costs that historically have been borne by the consumer like in-store fulfillment, rising wages and the fact that your cost savings are going to reach your goal by the end of this year. So what are the factors that are going to drive your ability to sustain this 10.5% operating margin?

Brian Cornell - *Target Corporation - Chairman & CEO*

So let me try to toggle through the P&L and walk through different opportunities that we think are still certainly in front of us and we've talked about localization. We think there are significant opportunities to make sure that, as we localize, we are building the right assortment that certainly contributes to greater acceleration in our comps and supports that 3%.

As we continue to see the guests respond to the changes we are making in signature categories, those categories like apparel and home and beauty, baby and kids, those happen to be some of the highest gross margin rate categories in our store. So gross margin rate will continue to help fuel our performance going forward.

While we are very pleased with the performance that we've seen in 2015 and our outlook in 2016 from a cost-savings standpoint, we continue to identify future opportunities. Cathy talked about our promotional ecosystem where today we spend billions of dollars each year. We think we have an opportunity to continue to enhance and refine the effectiveness.

John has talked about the work from a supply chain standpoint. As a byproduct of that, we think we are going to drive greater efficiency and whether it's reducing working capital as we reduce back-room inventory or flow product more effectively from our trucks to our shelves, we are still in the early stages of capturing some of that savings.

So we've had a number of variables in play, but we are confident that, with the priorities we have in place, we are going to continue to deliver very strong performance and maintain both the comp store growth rates and the strong returns we are seeing today.

Paul Trussell - *Deutsche Bank - Analyst*

Paul Trussell from Deutsche Bank. Very much respect your decision to invest in growth, lots of exciting projects that you have on deck here at Target. But can you discuss in a little bit more detail the LA25 initiative and broadly help us understand the cadence of the ramp in labor in the store for both the purpose of improving service, as well as the purpose of supporting a supply chain focus and the food initiatives that you all discussed?

Brian Cornell - *Target Corporation - Chairman & CEO*

Let me further describe where we are today with LA25 and I might have Jeff provide some additional insight and color. First of all, we haven't opened up one of our LA25 stores yet. It is clearly under construction and we expect to complete many of those changes early on this summer. So think about the May and June and July period. It'll be our first chance to understand how the guest reacts when we bring all of these different tests that on their own have been very well-received by our guests together in one centralized location.

So we are going to use that as a very important test ground for our brand. We will test a number of new initiatives there, as I described today and we will decide what are the initiatives that work best for the guests, that drive the right results for us from both a top-line growth standpoint, but also drive greater satisfaction from our guests every time they shop.

So we are in the early stages of testing that. We are going to learn over the next few months and as we learn, we are going to decide what we bring to the balance of our system. Jeff, do you want to provide additional color on LA25?

Jeff Jones - *Target Corporation - EVP & CMO*

I'm not sure how much more to add. That was very well said. I think the big point is it's an integrated approach to all the tests we've been doing individually. So a lot of great success in individual things around the country, but it's the first look at bringing them all together in one store with a very important guest in a state that matters a lot to the Company. So more to come as we complete the test.

Brian Cornell - *Target Corporation - Chairman & CEO*

Sure. And I think embedded in your question was a question about the investments we are making in visual merchandising. And if you were to ask John or ask Cathy if we think about investments we've made in the last year, one of the investments that's providing absolutely the best return is the additional focus we've placed on merchandising in our stores and the experts we now have merchandising our apparel, our home, those key vignettes throughout the store. And we are seeing the payback in guests that are clearly responding to our apparel offer in many cases like they haven't in years.

And in 2015, we saw very strong apparel performance and we are proud to say that we grew marketshare throughout the year, including in the fourth quarter. We talked about home and the home performance not only in the fourth quarter, but throughout the year in 2015. Comps up 4%, the strongest performance we've seen in a decade and so much of that is driven by an improved in-store presentation. The fact that we are now taking some of the fabulous product that Julie and her team are designing, the product that we are sourcing for our guests, we are now presenting it in a much more impactful way and the guest is responding and we are seeing those comps grow in categories that are clearly margin-accretive for Target.

So we are seeing the guests respond to the investments we've made in apparel, in home and we talked about one of the highlights in our fourth quarter was the change we made when we reimagined One Spot, the first thing you see when you walk into our stores, and created what we now refer to as Bullseye's Playground. Bringing our mascot into that initial area that you see when you walk into the store, reimagining that for our guests and we saw comps up over 25%. And I think we can say today we are seeing that moment continue as we go into the first quarter. And our visual merchants, our visual merchandising leaders in store, play a very important role in that very big, highly profitable Bullseye's Playground.

So we think those are the right investments. We monitor everything very carefully, but the investments in store labor and in visual merchandising are driving comp increases in those important style categories like apparel and home and clearly are driving unique growth rates in the front of our store with Bullseye's Playground. So we are confident that we are getting the right return, but we will watch that very carefully throughout the year.

Daniel Fu - *Maplelane Capital - Analyst*

Daniel Fu. I had a question on gross margins. You are basically guiding 30% longer term. Last year, you broke out that in-store gross margins were about 29.5%; online, you said, about 23.5%, 600 bps spread. So if longer term are you basically guiding that online and store margins may go up, or are you saying that store margins may go up above 30% and then online will be less of a drag, which is about 3.4% of sales and today you are not commenting on digital growth, but are you basically guiding in-store margins higher over time because of signature and home?

Cathy Smith - *Target Corporation - EVP & CFO*

Yes, so let me help a little bit there. So the first thing that we've learned or one thing that we've learned that's become very clear this year is our guest doesn't see a difference between the channels. And so if an order is placed online, but picked up in store, is a digital sale or a store sale. So we start there with thinking about literally a one Target experience.

With regards to margins, so the biggest challenge with just a peer fulfilled online order is the shipping piece, as you know. As we use our stores more and more for flexible fulfillment, we are helping to offset that, as well as when we have a guest in our stores, often times, they actually take the opportunity to shop some additional things in the store. So the combination of that shift is helping with a little bit of that, what was once thought of as just a pure drag on margin with a shipping expense.

In addition, as we continue to see our digital or our dotcom business pick up across the entire Target offering, we are seeing more and more of those signature categories as well, so that helps with the margin too. So in aggregate, we see a 30% margin as we suggested in gross margin and we really do see it as a single Target experience.

Brian Cornell - *Target Corporation - Chairman & CEO*

And again, in the short term, our gross margin rate in 2016 will benefit from the sale of our pharmacy assets.

Dan Binder - *Jefferies & Co. - Analyst*

Dan Binder at Jefferies. I just wanted to talk about food for a little bit. Obviously, the industry has some stores that are more convenient than yours, some stores that have greater assortments and many are doing organic and wellness already. And I realize that these initiatives may be incremental to you and help lift sales, but it seems like longer term to really drive traffic, you would need to expand the fresh areas of the store, including meat, produce, bakery, deli, etc. And I'm just curious your thoughts on why you wouldn't do that and shrink some of the less productive parts of the store or those that may eventually be going away over time like physical media? Thank you.

Brian Cornell - *Target Corporation - Chairman & CEO*

On an annual basis, we regularly sit down and look at how we purpose space throughout our store and that's a conversation we are going to continue to have. But as we sit here today, and we are clearly focused on making sure we lead with those signature categories that are really going to define and differentiate our brand going forward.

So as we think about space expansion and we think about the future layout of the store, we've got to start with making sure we properly position our style categories, apparel, home and beauty. We are investing in spaces like baby and kids. We are enhancing wellness and considering what the right footprint should be for food.

So we want to make sure that as our guests come to Target, we provide them a convenient, trusted, reliable experience when they shop our food department and recognize that a lot of that traffic is going to be generated by the fact that they've come to us because they've started their Target run. There's core family essentials that are driving them to our store. They are spending the time discovering and searching through many of our signature categories and while they are there, we want to offer them a convenient, trusted, reliable assortment of products in food. Sitting here today, we think that's the winning formula for Target going forward over the next few years.

Matt Nemer - *Wells Fargo Securities - Analyst*

Matt Nemer from Wells Fargo. Thank you. As you think about broadening and simplifying the loyalty program, is there any potential to have a buy-in membership program where you might offer not only something like free shipping, but an array of other services to increase wallet share with your guests? Thanks.

Brian Cornell - *Target Corporation - Chairman & CEO*

Jeff, do you want to give him a sneak peek?

Jeff Jones - *Target Corporation - EVP & CMO*

I think the simple answer is we have to consider both the high end buy-in and getting more people to enroll in non-tender. And so right now given the success of REDperks, we think the biggest opportunity to scale the number of guests we can identify is by thinking about how to simplify and integrate Cartwheel and REDperks and that's definitely step number one.

Matt Fassler - *Goldman Sachs - Analyst*

Matt Fassler from Goldman Sachs. So over the past year, you have cut, I guess, so year two, $1.5 billion of SG&A. You said you will be there by the end of the year. That's a lot to cut, but it's also a lot to redeploy. It sounds like the redeployment is coming essentially at the same pace as the dollars are coming out. So can you talk about the pace of that cost take-out and really where we are seeing those dollars show up in your spending plan?

Cathy Smith - *Target Corporation - EVP & CFO*

I'm happy to start there. So we did lay out a plan a year ago for $2 billion of cost-savings, an opportunity that John and Brian laid out. We did achieve a lot of that. The SG&A piece of that, a lot of it started in last year in 2015 so we will get the benefit of that run rate savings coming into this year and it was a lot of things. It was around making more efficient organizations, but it was also just inefficiency in our business and the team has done a great job there.

About $500 million of it was in cost of goods sold, so that's going to show up as we think about sitting down with our vendors and having a stronger partnership relationship there, thinking about how we source things. All of that's been coming through -- both of those will be -- throughout 2016, we will be able to declare victory on that $2 billion in savings.

And to your question about where is it showing back up in, you are absolutely right, it's a delicate balance between making sure that we are taking out efficiency or things that aren't as important and making sure we are investing in things that we absolutely want to stand for. And so that's what the team has been doing brilliantly through last year and into this year is figuring out where do we want to invest, whether it's in product quality or in data scientists and we are doing -- it's pretty much across the board there.

Brian Cornell - *Target Corporation - Chairman & CEO*

Cathy, I think one thing that might be helpful for this group to understand is some of the changes that Mike McNamara has made in his department. If we can get Mike a microphone, I think it would be helpful for him to provide a perspective.

I will tell you one of the great things that Mike has brought to us is a very objective approach, but a very knowledgeable approach to how to lead the business. And one of the first thinks Mike did probably 90 days into his role is come to me and say, Brian, one, I think I have too many outside contractors. I think I can do this much more efficiently if I build engineering talent within. I think we are working on far too many projects. I think we can set much tighter priorities and deliver stronger results and impact the business more effectively.

And for the first time perhaps in my career, I had someone walk into my office and say, Brian, I've got too much capital to spend. I can actually deliver this much more efficiently; I want to give you some dollars back. And that's certainly fueling some of the changes we've made and that you are seeing in our algorithm going forward.

So Mike, why don't we give you a chance to introduce you to the group? Mike is sitting right up front. And why don't you offer a perspective on what you've seen and the approach we are taking as we go into 2016 from a technology standpoint?

Mike McNamara - *Target Corporation - EVP & CIO*

Good afternoon. So I've been in the business about eight months. I joined in June of last year. As the guys introduced, I came from Tesco. I guess my perspective is this is that people have asked are we spending enough money on technology and we are spending [pots] of money on technology. We are spending definitely enough money on technology. And it really is about actually where is our fit and focus.

So my first outing with the Board happened probably about two or three months in and I explained to them what I wanted to do and they said to me, well, what do you need and I said, well, what I need is less money and fewer people, which I think took them aback a little bit. Because in reality we had -- last year, we were doing 880 projects simultaneously. Now we've got lots of good ideas about where to invest our technology dollars, but I assure you that we don't have 880 great ideas running simultaneously.

So this year, what we are trying to do is we are taking actually -- we are spending less money. We are spending it more internally, less on third parties and we are going to focus in on fewer than 100 projects. So from 880 projects down to fewer than 100. And those 100 projects are far more focused in on what John and Cathy and Brian have been talking about, so the money is going to go on the supply chain, it's going to go on e-commerce, it's going to go on guest loyalty and it's going to go on store productivity, store operations.

So the approach really has been about actually focusing our investment on the strategic initiatives rather than spending on a slew of initiatives that may not make a great long-term impact on the business. So we will spend less, be far more focused, bigger in-house team, less reliance on third parties.

Chris Horvers - *JPMorganChase - Analyst*

Chris Horvers, JPMorgan. So you are expecting same-store sales to accelerate in 2017 3% plus and actually it's a little bit better than what you guided to last year, so it's a step up. Over the past year, your execution has been much stronger as a company. You also have had a pretty favorable macro backdrop, at least relative to where it's come from with salary and wage growth at the low end, lower gas prices. So can you talk about what drives the confidence in getting to that 3% plus and perhaps put some weighting around what initiatives you think are going to be the most impactful to drive that acceleration?

Brian Cornell - *Target Corporation - Chairman & CEO*

Hopefully, for most in the room, my answer is not going to surprise you. I think it's the exact same initiatives we've been talking about for the last two years. But, over time, those initiatives are going to mature and we are going to expand them to a broader base of our assets. So we expect to continue to see our signature categories outperform our overall comps.

And as we continue to see great new brands like Pillowfort come to market to support the growth in our kids business or CAT & JACK fuel accelerated growth in baby, continue to mature our offerings in wellness, continue to invest and bring great design and quality and innovation to apparel and home, we think that's going to only get better over time. And those are longer leadtime categories, so we will see some of that certainly in 2016. We will be seeing more in 2017 and 2018.

We have already talked several times about localization. Today, we are doing it in a handful of stores. We would certainly expect, based on the work that Mike and his team are doing, John and his team are doing, that as we get into 2017 and beyond, we will be localizing more and more of our stores around the country.

We certainly expect to continue to build our digital capabilities and make it even easier going forward for our guests to shop at Target no matter how they want to interact with the brand, either in our stores, clicking and coming by to collect or having product delivered to their home. So those capabilities are only going to mature over time.

We are very excited about the reaction we've seen with our smaller flexible format. We are opening up a handful of additional locations in 2016, but we are building a very strong pipeline in 2017 and 2018 and beyond. So it's those core initiatives that are going to accelerate our growth in 2017, 2018 and 2019 fueled by the commitment to having the right retail fundamentals, to having a loyalty program that builds even greater engagement with our guests. And while we like the progress we are seeing, and we expect more of it in 2016, those capabilities and initiatives are only going to mature in the years to come and we think that's going to continue to drive our overall Company performance.

John Zolidis - *Buckinham Research - Analyst*

John Zolidis, Buckingham Research. So when you came in, they very quickly decided to exit the Canada foray given the unlikelihood of getting adequate returns and then not that long after the sale of the pharmacy business, which is also having a very strong impact on return on invested capital and margins. So as you look at the business now, are there any other bold stroke decisive type moves that you are considering that could potentially also have some kind of a positive improvement on the overall Company's return on invested capital that perhaps we can look forward to hearing about in the future?

Brian Cornell - *Target Corporation - Chairman & CEO*

I think it's how we define bold and I think some of the changes we've already talked about today are very bold steps for us. The approach that Mike just laid out from a technology standpoint is a very different path than we've been on in the past. The approach that John and the team are taking to retail fundamentals, to improving supply chain in-store processes and operations for us are very important and very bold steps.

Today, we introduce two exciting new brands. Those we expect to be $1 billion brands going forward. For me, those are pretty bold choices and steps that we are really excited about. Jeff has talked about the commitment we have to building a very different approach to loyalty. Those are bold commitments for us. And when we start adding them up, those are the elements that start to transform our Company and continue to bolster the brand.

So there may not be the changes that you talked about, the one-time events like Canada and the transaction with CVS, but we think these are the right initiatives for the Company. We think they are bold choices. We are doubling down behind each and every one of them and fundamentally, we think those are the right steps for our guests, the right steps for our business and certainly the right things for our shareholders. And over time, they are going to deliver very strong returns and results for the Company.

So we actually as a leadership team think those are very important and very bold choices and we are not talking about 100 initiatives. We are talking about a very focused and finite group of initiatives that we think when we bring them together will redefine our Company for years to come. Thank you.

Bob Drbul - *Nomura Securities - Analyst*

Bob Drbul from Nomura Securities. Two questions. The first one is I think last year you laid out a clear plan of 40% digital sales growth. Is there a plan that you can share with us in terms of the next few years on that segment within your sales plan? And the second one is that CapEx was I think $1.4 billion or $1.8 billion, below the $2 billion. The plan is going from $2 billion to $2.5 billion. Is that all supply chain investment increases because the Amazon guys, they like to spend money, so I'm just curious how you think about that?

Brian Cornell - *Target Corporation - Chairman & CEO*

Let me talk about capital and then go to digital and as you think about our capital spending in 2016 and going forward, we will be spending behind technology. We will be spending behind supply chain. We are reinvesting and remodeling our stores and we are going to have ongoing maintenance and repair work. So those buckets are going to stay fairly constant and obviously, as we continue to perfect and refine our flex format, you should see us expand our investment there, but we think those are the key areas that are going to underpin the Company going forward.

From a digital standpoint, if we go back a year ago when we talked about our expectations, we said we wanted to be in a position where we were industry-leading. We wanted to make sure we had a very bold objective not only for our investment community, but importantly for our own team, to make sure everyone realized how committed we were to digital.

And if we go back to what Cathy has talked about today, what John has talked about today, what Carolyn talked about in the video, in every one of those guest immersions, whether we've been sitting in San Francisco or Boston, Dallas or Chicago, different parts of the country, we clearly recognize that our Target guests, in fact, today's modern shopper, they are absolutely digitally-enabled and that enables them, whether they are coming to one of our stores, looking to click or collect or looking for product to be conveniently delivered to their home.

So we are absolutely committed to driving accelerated growth from a digital channel standpoint, but as opposed to putting a number out there, we said we just want to make sure we are in an industry-leading position and we want to make it really easy for our guests to decide just how they want to shop with us. But as Cathy mentioned, we realized it's really hard to keep score. A significant portion of our digital growth in the fourth quarter where we grew 36% was a guest who shopped online and then conveniently came to our store to pick up their order. And while they were there, they continued to shop other categories.

A significant portion of our digital growth in the fourth quarter was store-enabled, those over 450 locations that are delivering the last mile, that are partnering with an outside vendor after we pick, pack and ready the product. Is that an online order? Is it a store order? It all ends up being a way that Target fulfills the needs of our guests. But we are more committed than ever to the importance of ensuring our business is digitally-enabled, that we have the right tools and capability, that we make it really easy and to quote many members of our team, we just want to make sure it works.

So we are going to continue to focus on driving strong digital performance. We will report it every quarter. We just don't think today we have a line of sight to saying here is how we are going to forecast it. But we certainly want to be leading the industry as we go forward and continuing to make sure we deliver the right experience for our guests.

Unidentified Company Representative

We have time for one last question.

Wayne Hood - *BMO Capital Markets - Analyst*

Wayne Hood, BMO. So I had a question for you, Brian, and one for you, John, as a follow-up. If the customer work you are doing around grocery points to a path where they say to you we would like you to see -- we would like you to offer fresh cut meat, fresh fish, those more labor-intensive businesses that you haven't offered in the past, would you be willing to go down that path? And if you were, how much of a lower EBITDA margin would you be willing to accept?

And then, John, maybe related to all of this, as you think about food 5, 10 years out, that you look at your fulfillment on the fresh side, can you really get it accomplished with produce without localized distribution centers getting away from third party and if you do so, does that mean that in five years we are looking at a stepup in capital spend, get your food assortment localized fresh, get away from third party?

Brian Cornell - *Target Corporation - Chairman & CEO*

John, do you want to start and I will finish off?

John Mulligan - *Target Corporation - EVP & COO*

Well, a lot of speculation there in your question, Wayne. So I think the first thing for us is to get what we are doing right -- what we are doing today right for our guests. The fresh food we do have in our store needs to be fresh every day and it needs to be local every day. We've done a lot of work. We've brought in some experts to help us think about the fresh food supply chain. We are not ready to tell you what our plans are there, but we think there's an opportunity for us to improve that.

I think Cathy and I have talked about this several times and she has asked me that exact same question. Is there a bingo coming for capital investment around food? And I think everything we see today would lead us to believe that we feel really good about the capital plan we've put in front of you and that $2 billion to $2.5 billion I think is the range we put around it that we feel good we will operate within that for the foreseeable future.

So we feel good about that, but I think our focus today is on getting what we do right -- do in the store today right for our guests. And that's what they expect from us today. If we learn more down the road, we will adjust, but really what they are looking for from us today is what we have, just do it well, do it the way Target should do it, what we've come to expect from Target.

Brian Cornell - *Target Corporation - Chairman & CEO*

Wayne, I think that's really the answer. We want to make sure that, in food, we are focused on getting the fundamentals right. We think we can differentiate through assortment. We've also got to be clear about who we are and who we are not and we are going to be true to the drivers of our strategy and how we differentiate the brand. So we are going to make sure that we have got the right fundamentals in place in food. We clearly recognize we have to improve freshness whether that's in a Super Target or a PFresh, but we are going to be really careful about moving into new spaces that add greater complexity to the business model.

So why don't I just take a couple of seconds to wrap up and I certainly appreciate the time that you've spent with us this afternoon. Hopefully, you recognize that our plan today is very consistent with the ambitious plan we laid out last year. And we've put together a multi-year plan designed to make sure we drive consistent, profitable growth and I want to underscore the point consistent.

As you look at our performance in 2015 and again in 2016, we are really focused on driving consistency. We've seen very positive comp store performance over the last five or six quarters. We are really pleased with the traffic we are driving and we certainly think we are making some big strides from a digital standpoint.

But, as we go forward, I hope you recognize that the plan that we have in place starts with the guest and that will clearly drive the choices we make. Hopefully, you walk away today recognizing that that plan will be supported by even stronger retail fundamentals in the future than we have today.

It'll be a business that will clearly be enabled digitally and it'll be led by our signature categories that we think define the brand and really define the essence of our brand promise. So we've got a very clear set of priorities. It starts with making sure each and every day we are thinking about the guest. We are thinking about how we serve the guest no matter how they shop and it's driving our performance.

So our team today is really proud of the progress we've made, but we recognize we have a lot more work to be done. So it's a very proud, but humble team. We know we've got a lot more work that has to be done. We feel like we are just getting started, but we think we've put together a plan, an algorithm that will guide this Company over the next few years and it's going to allow us to build off of these choices we've made to consistently drive profitable growth, improve our marketshare position, endear even greater loyalty with our guests and set the Company up for growth for years to come.
