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# EDITED TRANSCRIPT

CVS - CVS Health Corp and Target Sign Agreement for CVS Health to Acquire, Rebrand and Operate Target's Pharmacies and Clinics  
Corporate Call (2nd Call)

EVENT DATE/TIME: JUNE 15, 2015 / 1:45PM GMT

## OVERVIEW:

CVS announced that it has reached an agreement to purchase Target's pharmacy and clinic businesses for just under \$1.9b.



## CORPORATE PARTICIPANTS

**John Hulbert** *Target Corporation - VP, IR*

**Brian Cornell** *Target Corporation - Chairman & CEO*

**John Mulligan** *Target Corporation - EVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Sean Naughton** *Piper Jaffray - Analyst*

**Matt Nemer** *Wells Fargo Securities - Analyst*

**Greg Melich** *Evercore ISI - Analyst*

**Scott Mushkin** *Wolfe Research - Analyst*

**Paul Trussell** *Deutsche Bank - Analyst*

**Michael Lasser** *UBS - Analyst*

**Matthew Fassler** *Goldman Sachs - Analyst*

**Wayne Hood** *BMO Capital Markets - Analyst*

**Dan Binder** *Jefferies LLC - Analyst*

**Simeon Gutman** *Morgan Stanley - Analyst*

**Priya Ohri-Gupta** *Barclays Capital - Analyst*

**Robby Ohmes** *BofA Merrill Lynch - Analyst*

**Peter Benedict** *Robert W. Baird & Company, Inc. - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to today's conference call with Target Corporation.

(Operator Instructions)

As a reminder, this conference is being recorded, Monday, June 15, 2015. I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

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### John Hulbert - Target Corporation - VP, IR

Good morning everyone and thank you for joining us on this morning's conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer, and John Mulligan, Chief Financial Officer.

This morning Brian will provide his perspective on our transaction with CVS Health which we announced earlier this morning. Then John will provide additional details and outline the financial benefits of the transaction.

Following their remarks we will open the phone lines for a question-and-answer session. In total we are planning 45 minutes for today's call including both remarks and Q&A.



As a reminder, we're joined on this conference call by investors and others who are listening to our comments via webcast. Following this conference call John and I will be available throughout the day to answer any follow-up questions you may have.

Also as a reminder any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings and the press release we issued this morning. Finally in these remarks we refer to return on invested capital which is a ratio based on GAAP information with the exception of adjustments made to capitalize operating leases. Reconciliations of ROIC to Target's GAAP total rent expense are posted on our Investor Relations website.

With that I will turn it over to Brian for his perspective on this morning's announcement. Brian?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Thanks, John, and good morning to all of you. We are very excited about this morning's announcement that we've reached an agreement with CVS Health in which they have agreed to purchase our pharmacy and clinic businesses and operate those businesses within our stores and that we plan to co-develop small format stores with them over time.

We believe this transaction offers compelling benefits for consumers and shareholders and it will allow Target and CVS to leverage their respective strengths on behalf of our guests. Specifically, Target guests will gain access to CVS Health's best-in-class Healthcare Services and they will benefit from the scale that CVS brings to that space. At Target, beyond the financial benefits John will discuss in a few minutes, this transaction will free up our resources we can deploy in support of our key growth priorities including on-demand shopping, category roles, localization and personalization and the development of new urban formats.

Another key priority for Target is to become a faster moving, more agile organization focused on acting decisively and removing roadblocks which slow down innovation. In support of this priority everything we do and how we do it has been on the table and up for review. And the transaction we're announcing today is a perfect example of renewed willingness to innovate and change the way we do business and create value for our guests.

As a result of the strategic review we conducted last year, we know that our pharmacy and clinic businesses are valuable to our guests and drive significant traffic to our stores. However, our ability to provide these services is currently constrained by our lack of scale and a need for deep, specialized expertise in a rapidly changing healthcare landscape.

This unique transaction will allow our stores to continue to benefit from the traffic these businesses provide while expanding the Healthcare Services available to guests in our stores. And importantly as part of this agreement CVS is committed to having a low-cost generic drug option available without a membership fee to Target guests who pay cash.

With the acquisition of our existing pharmacies and clinics CVS Health is committed to growing prescriptions and traffic in our existing stores, a commitment that's reinforced by their proven track record of successfully growing businesses. In addition CVS agreed to open and operate pharmacies in new Target stores going forward including small format Target stores and new locations resulting from our planned co-development agreement. Under this plan we expect to open 5 to 10 co-developed TargetExpress stores in the two years following the close of the transaction with an option to open up additional small format stores over time.

Finally as part of this transaction CVS plans to expand their MinuteClinic business in existing Target stores over the next three years.

As I mentioned earlier, defining roles for our merchandising categories is one of our key strategic priorities. As part of the work on category roles we've identified what we've described as our signature categories: style, baby, kids, and wellness. These are the categories that are important to our core guests and the ones we want Target to be famous for.

And while we're still in the early days of this work, our recent quarterly results have shown that our efforts are paying off as sales in our signature categories have grown much faster than the total sales over the last six months. Today's transaction reinforces our work to grow signature categories,

most notably in wellness. With CVS Health managing the pharmacies and clinics in our stores the Target team will be able to focus our efforts on delivering products and experiences complementary to Healthcare Services including options to help our guest eat well and stay active through an enhanced assortment of non-toxic and clean label options.

And while John will cover additional details in a few minutes I want to highlight the financial benefits of this transaction which only reinforces its strategic value. While the transaction will reduce our sales by more than \$4 billion annually it will also significantly reduce our costs which are high due to lack of scale. As a result the removal of pharmacy and clinic sales will meaningfully increase our operating margin rates following the close of this transaction. In addition we plan to apply after-tax proceeds from this transaction in support of our long-standing capital deployment goals including share repurchase.

Altogether we expect the transaction will increase store traffic and sales over time, be moderately accretive to our earnings per share immediately following the transaction and we expect it to contribute half a point or more to our return on invested capital over time.

Before I turn the call over to John I want to address upfront a question we expect you to have. Does this transaction mean we're looking to sell any other businesses to a partner who would operate them on our behalf? Our answer to that question is that we believe this transaction presents a unique opportunity to partner with a best-in-class provider in a very complex space in which we're not well-positioned to be successful on our own.

So while we'll continually look for ways to innovate to better serve our guests, we do not currently see the potential for additional transactions like this one in our future. Put another way, for the remainder of our businesses we either have already the assets in place we need to succeed or we're well on our way to developing them and therefore we don't see a similar opportunity to create value by selling the rights to operate them.

In conclusion, I want to thank you for listening today and reiterate how excited we are about this transaction which we expect will create value for Target, for CVS Health, shareholders and most importantly for our guests. We are focused on moving smoothly through the regulatory review process after which we'll work tirelessly with CVS Health to ensure that the in-store transition is seamless for our guests.

Now I'll turn the call over to John who will cover additional details on the transaction and its expected financial benefits for Target. John?

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**John Mulligan - Target Corporation - EVP & CFO**

Thanks, Brian. In my portion of today's remarks I'm going to provide additional details on our transaction with CVS Health. Then I will turn to the financial implications for Target including capital deployment and accounting considerations following closing.

The transaction we announced this morning is based on three pillars: purchase agreement for CVS to acquire our pharmacy and clinic businesses, an operating agreement which describes how Target and CVS will work together to grow these businesses over time and a planned co-development agreement through which the two companies will have the option to jointly develop small format stores over time. Under the purchase agreement CVS Health will pay Target just under \$1.9 billion to acquire our pharmacy and clinic businesses. As part of this agreement Target will transfer to CVS all of our operating healthcare assets including inventory, equipment and the intellectual property for our ClearRx bottle design.

In addition Target's store-based and field healthcare team members will be offered employment at CVS Health. CVS will invest to add branding to the pharmacy and clinic spaces within our stores and when permitted to signage outside of our stores. The remainder of our stores will not change; specifically, businesses and inventory located outside of the pharmacy and clinic spaces including our over-the-counter businesses will remain with Target.

Under the ongoing operating agreement CVS will have the exclusive right to operate pharmacies and clinics in Target stores. CVS will make ongoing payments to Target for occupancy costs which are expected to be in the \$20 million to \$25 million range in the year following closing. To support our guests CVS is committed to having a low-cost generic drug option available without a membership fee for Target guests who pay cash.



Initially the CVS loyalty program will apply to pharmacy transactions in Target stores with the exception of a Target-based loyalty program like REDperks which we're currently testing could be added later. The agreement specifies that at Target's option CVS will open pharmacies in new Target locations and as Brian mentioned CVS plans to open up to 20 additional MinuteClinics in existing Target stores in the three years following closing.

Under the planned co-development agreement Target and CVS will form a working group to leverage CVS' existing real estate pipeline and greenfield opportunities to co-develop new small format stores with a CVS/pharmacy inside. Initially this agreement specifies that we intend to open 5 to 10 co-developed TargetExpress locations in the two years following closing allowing us to continue testing our express format in different markets and demographic areas and allowing us to benefit from CVS' significant experience in developing and opening small format locations.

With those details as context let's move on to the financial implications of the transaction. For clarity in this discussion I'm going to use 2014 actual financial results as the baseline for comparison.

Beginning at the top of the P&L had this transaction closed prior to last year our 2014 sales would have been about \$4.2 billion lower than reported. However, our cost of goods would have been approximately \$3.2 billion lower and our SG&A expense would have been about \$1 billion lower. In other words had this transaction closed prior to 2014 the impact on last year's EBITDA and EBIT dollars would have been approximately neutral.

Of course generating same operating margin dollars on a lower base of sales means our operating margin rates would have been higher. Specifically, last year's EBITDA margin rate would have been approximately 60 basis points higher and our EBIT margin rate would have been about 40 basis points higher under this transaction. As we look ahead we expect this transaction will benefit our annual segment EBITDA and EBIT margin rates over time compared with a scenario in which we continue to operate pharmacy and clinics in our stores.

Now let's turn to a discussion of the cash aspects of the transaction and implications for capital deployment. From the \$1.9 billion we received from CVS at closing we expect to reserve approximately \$200 million to settle net liabilities of our pharmacy and clinic businesses and we anticipate cash taxes on the transaction of approximately \$500 million. That leaves about \$1.2 billion of net cash proceeds which we expect to deploy in support of our long-standing capital priorities including share repurchase.

One note: we do not anticipate the need to retire debt in order to maintain our credit ratings following this transaction because it is not expected to meaningfully affect EBITDA generation by our core business.

Now let's turn to some accounting aspects of the transaction. At a high level following the close of the transaction the asset side of our balance sheet will increase by approximately \$1 billion as the net cash received along with a deferred tax asset will be partially offset by about \$0.5 billion reduction of inventory which will transfer to CVS. On the liability side of the balance sheet the notable changes are an expected pretax deferred income liability of approximately \$800 million which will be amortized over 23 years following the closing along with an increase in shareholders' equity.

On the income statement in the period in which we close we expect to record a pretax gain of approximately \$550 million which will be recorded outside of segment results and excluded from adjusted EPS.

I want to pause and clarify that we're not updating our quarterly or annual EPS guidance today simply because of the uncertainty around the quarter and fiscal year in which the transaction will ultimately close. Once we have clarity on timing we'll incorporate the impact of this transaction into our short-term and longer-term guidance for the periods following closing.

Before we move to questions I want to reiterate the financial and strategic benefits this transaction provides. Financial considerations including meaningful increase in operating margins following closing, higher returns on invested capital over time and EPS accretion immediately following closing.

Strategic considerations include the fact that we are partnering with a best-in-class provider in CVS Health who has significant scale in this space and a proven track record of successfully growing their business. With the CVS team focused on growing the pharmacy and clinic businesses in



our stores the Target team can sharpen our focus on advancing the four key growth priorities Brian outlined earlier. And we believe these combined efforts will have a positive impact on Target's long-term traffic and sales growth.

Finally and most importantly we believe this transaction will benefit our guests through providing them access to CVS' best-in-class Healthcare Services in support of their wellness goals.

With that we'll conclude today's prepared remarks. Now Brian and I would be happy to respond to your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Sean Naughton, Piper Jaffray.

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### Sean Naughton - Piper Jaffray - Analyst

Good morning and congratulations. Just in terms of the frequency it does look like CVS stores do quite a bit more scripts on a per store basis than Target. I guess is the idea that CVS could get that up to a similar productivity level and then also is there any revenue sharing moving forward other than the rent you collect from CVS?

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### Brian Cornell - Target Corporation - Chairman & CEO

Sean, it's a great place for us to start Q&A. Consistent with many of the things that John and I have been talking about over the last few months we see this being very complementary to our focus on driving traffic and certainly increasing script counts and CVS brings great expertise in this space. We think they're going to be a terrific strategic partner and together we are looking to drive scripts and certainly drive more traffic to our stores.

So we think it's very complementary to our overall strategy. On the revenue side we will be as we reported receiving rent from CVS as we move forward with this transaction.

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### Sean Naughton - Piper Jaffray - Analyst

So nothing else in terms of the revenue except other than the rent at this point?

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### John Mulligan - Target Corporation - EVP & CFO

That's right, Sean, nothing else.

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### Sean Naughton - Piper Jaffray - Analyst

Okay, great. Then just lastly maybe you could give us an idea of currently what is the tie rate between a pharmacy purchase for a guest coming into the store today and then other parts of the store and is that typically a bigger basket than the overall average? Thank you.



**John Mulligan** - Target Corporation - EVP & CFO

It's in the 5% to 7% range of our guests utilizing the pharmacy today. And the total basket, their average shopping basket excluding pharmacy, looks a lot like the rest of every other basket we have so nothing different there. So the total basket is larger given there is the additional pharmacy product in there as well.

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**Sean Naughton** - Piper Jaffray - Analyst

Helpful. Thank you.

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**Operator**

Matt Nemer, Wells Fargo Securities.

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**Matt Nemer** - Wells Fargo Securities - Analyst

Good morning and I will add my congrats as well. Can you provide any detail on the customer overlap between the two businesses maybe based on REDcard data or your own research and getting ready to do this transaction? Thanks.

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**Brian Cornell** - Target Corporation - Chairman & CEO

Matt, thank you. As you might imagine we spend significant time talking to our guest and really understanding their guest view of the CVS brand.

And the guest has clearly told us this is a great win for Target, it's a great win for our guests. And we expect our guests to react very positively to the CVS branding, again the expertise, the experience they have in this space. So from a guest perspective they are going to view this as a very positive change and we expect it to drive traffic and improve script counts.

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**Matt Nemer** - Wells Fargo Securities - Analyst

And then secondly is there room in the current pharmacy format to add new services or experiences in the wellness category? You alluded that that might be one of the opportunities and I'm just curious if there's enough square footage to go down that path?

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**Brian Cornell** - Target Corporation - Chairman & CEO

Matt, it's certainly something that we will look at over time. But we certainly think we have square footage that's available in our stores to be repurposed if it's the right thing for the guests. So we'll look at that store by store, region by region but those will certainly be opportunities we'll explore with our partner.

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**Matt Nemer** - Wells Fargo Securities - Analyst

Thank you.

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**Operator**

Greg Melich, Evercore ISI.



**Greg Melich** - *Evercore ISI - Analyst*

Thanks, good morning. Congratulations. I wanted to follow-up on two areas.

One I think you mentioned on REDcard the REDperks program, so there's no plan right now to have some sort of reward associated with CVS/pharmacy but that's open in the future. How would that work out? Then I had a follow-up.

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**John Mulligan** - *Target Corporation - EVP & CFO*

So first the REDperks because we're still in testing there we want to let that continue to evolve on its own course. And then we'll have the opportunity as we determine the best path there to bring that to our guests.

But I think we're really excited about the fact that our pharmacy guests right away will enjoy the benefits of CVS' loyalty program. Very large loyalty program, great value for the guests and we're excited that we'll be able to bring that to them in our stores.

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**Greg Melich** - *Evercore ISI - Analyst*

So to be seen. And then second, Brian, you mentioned in the beginning that we're not looking to sell our businesses and I get that but if you look at this from a different perspective that it's a store within a store and sort of partnering with people that maybe want access to your good real estate and traffic, is that something that would also be off the table? In other words would you have other store within a store concepts even if it didn't mean selling the business?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Greg, we'll certainly keep an open mind over time. But as I said in my prepared remarks we think this is a very unique transaction with a very unique partner that brings expertise into a space where we lacked the scale and specialization.

Sitting here today this is going to allow us to focus on those core signature categories we've been talking about, really make sure we continue to drive growth and improve and enhance the experience in our style categories, in beauty, in kids, baby, but also in wellness. And this is going to allow us to really impact the areas of wellness that are most important for us as we go forward.

It's also going to allow us to make sure we're elevating our focus on reinventing food which we been talking about for almost year now. We recognize we're in the early stage of that reinvention but as a byproduct of this transaction we will be able to elevate our focus on signature categories and accelerate the reinvention of our food offering.

So I think we've got the assets in place or we're rapidly developing the capabilities we need to continue to drive growth and execute our strategy. So I wouldn't expect any similar transactions like this in our future.

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**John Mulligan** - *Target Corporation - EVP & CFO*

Yes, the thing I would add, Greg as you know we view that real estate is very valuable and we have a few examples where we've done exactly what you're talking about. Starbucks is a great partner. We've got a great partner in optical but it would need to be something that somebody brings to our guest that's far different than we could bring in our stores that we're doing already.

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**Greg Melich** - *Evercore ISI - Analyst*

All right, that's helpful. Thanks a lot. Good luck, guys.

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**Operator**

Scott Mushkin, Wolfe Research.

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**Scott Mushkin** - *Wolfe Research - Analyst*

Hey guys, thanks for taking my questions and I said this to CVS I think this is just a masterstroke deal, so congratulations you guys on doing it. I wanted to get to understand the immediate accretive commentary and moderately accretive immediately commentary vis-a-vis the numbers that were laid out in 2014. So I guess my assumption would be this business was starting to lose money, is that correct?

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**John Mulligan** - *Target Corporation - EVP & CFO*

So the business like I said in 2014 would have been modestly negative from a profitability perspective so immediately accretive. I think beyond that we obviously will have the capital deployment which will help.

But frankly the thing I'm most excited about, the thing that drives the accretion through time is the partnership with CVS and our ability to grow together. To grow as they grow their business they've shown a track record of growing their business. That brings traffic to our stores and will also help us grow as we move forward.

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**Scott Mushkin** - *Wolfe Research - Analyst*

Absolutely. Then I guess the other thing I wanted to ask about it seems like the purchase agreement and the operating agreement are really cemented in but it seems like kind of the other part, the co-development part and where the partnership goes over time is a little looser.

Do you see this maybe as a first step where you guys -- they will be -- CVS will be an integral part of what you do with the Express stores? And also I think Greg was asking about like the REDcard and is there opportunities to maybe do some joint loyalty things? How are you looking at the future relationship?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Scott, as you might imagine we've started off being very focused on this initial transaction and really making sure that we cement the partnership in our pharmacies and our clinics. As part of it Larry and I have agreed they will certainly be part of the expansion of TargetExpress. So when we expand that concept as soon as the deal is closed it will be powered by a CVS Health pharmacy in each of those locations.

So we will continue to look at ways to build out the partnership and we really do view this as an important strategic partnership. It's more than just a transaction because we're going to be working together for years and years and years to come. So we'll continue to look at strategic opportunities to benefit both businesses, our shareholders and importantly the Target guest.

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**Scott Mushkin** - *Wolfe Research - Analyst*

All right, thanks. Congratulations again.

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**Operator**

Paul Trussell, Deutsche Bank.

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**Paul Trussell** - *Deutsche Bank - Analyst*

Good morning. Brian, with wellness is one of your signature categories in this announcement now out, are you able to help us better understand your vision for this area with a little bit more detail than what's been discussed in the past?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Sure, Paul. And again I view this is very complementary to our commitment to wellness. We now have a strategic partner that brings scale, expertise, unique capabilities and certainly experience in this space to make sure that it complements the things that we're going to focus on from a wellness standpoint as we think about bringing better assortment, improved experience to the Target guest.

So our commitment to wellness will only accelerate as part of this. And we'll continue to make sure that we have the right products whether that's things that we do to expand our fitness apparel, wearable technology but also obviously the products and services we offer the guests. So we are very committed to wellness and I am very pleased to say that now we've got a terrific strategic partner that can help us complement our efforts and continue to drive growth and traffic to our stores.

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**John Mulligan** - *Target Corporation - EVP & CFO*

And I would just point back to something Brian said earlier which is that our guest research clearly indicates that their view of our wellness credibility goes up significantly with a partner like CVS Health in our stores providing those Healthcare Services. So we view this as a terrific win for our guests.

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**Paul Trussell** - *Deutsche Bank - Analyst*

Thank you. And just to be clear, all the other items in-store on the shelves from a health perspective, cold and flu medicine, etc., will still be completely managed by you guys?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Absolutely. And we'll continue to make sure that we bring our guest the right assortment, the right in-store experience that complements the work that CVS will do in the pharmacy.

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**Paul Trussell** - *Deutsche Bank - Analyst*

Thank you. Good luck.

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**Operator**

Michael Lasser, UBS.

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**Michael Lasser** - UBS - Analyst

Good morning, thanks a lot for taking my question. So how do you expect to treat the savings that you're going to get or the accretion that you're going to get from this deal? Do you anticipate that it will fall to the bottom line or will you use what we can effectively call proceeds of the savings to reinvest back in areas like food and other categories you want to improve?

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**John Mulligan** - Target Corporation - EVP & CFO

I think you know as I said we'll come back and provide more commentary on where we're going with the business as we get to the closing. And I think as we've talked about in the past there's a lot of places we want to invest. There is several places where we're looking for savings in our P&L.

This is one place where we'll receive them. But we have a large expense project that we're working on, \$2 billion of savings. So I think providing clarity on all that collectively is what makes a sense, so more to come on that as we provide the longer-term guidance when we get closer to the closing.

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**Brian Cornell** - Target Corporation - Chairman & CEO

But Michael, to build on that you should expect us to remain very consistent with the plans we've been communicating. We'll be continuing to invest in building our on-demand capabilities, making sure that we complement a great in-store experience with the right digital and online capabilities.

You're going to continue to see us invest in localization and personalization. We'll continue to invest in the expansion of both City Target and TargetExpress. So this allows us to focus in on those core drivers of our strategy that we've been talking about for almost a year now.

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**Michael Lasser** - UBS - Analyst

Okay, that's really helpful, Brian. My second question is what will you be able to do? Do you have specific examples in terms of pricing products and services as a result of this deal and as a result of this relationship that you might not have otherwise been able to do on your own? And then I will turn it over.

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**Brian Cornell** - Target Corporation - Chairman & CEO

Michael, I think the key benefits of this strategic partnership is that we're now going to be partnering with a company in CVS Health that's an expert in the space. They bring scale, they bring cost efficiency, they bring expertise that we just could not bring to a space where we were operating as a subscale player. So we now have an expert in the space that has tremendous experience in Healthcare Services, that has capabilities to drive traffic and improve scripts and all of those things are going to benefit our Target guests.

So we think this is a terrific move for both of our companies. But ultimately our guest is going to benefit by the expertise, the capabilities, the scale and the Healthcare Services that a great partner in CVS Health can bring.

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**Michael Lasser** - UBS - Analyst

That's helpful. Thank you so much.

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**Operator**

Matthew Fassler, Goldman Sachs.



**Matthew Fassler** - *Goldman Sachs - Analyst*

Thanks a lot and good morning. My first question, just a very straightforward one. Are there any contingencies here for this transaction in terms of financing shareholder regulatory or anything else?

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**John Mulligan** - *Target Corporation - EVP & CFO*

Certainly there's regulatory but beyond that normal contingencies nothing -- we feel very confident that will may be able to close the deal.

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**Matthew Fassler** - *Goldman Sachs - Analyst*

Just to be clear, John, the regulatory is just FTC?

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**John Mulligan** - *Target Corporation - EVP & CFO*

Correct.

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**Matthew Fassler** - *Goldman Sachs - Analyst*

Got it. Thank you. Secondly as you think about growing your Express stores and your small format stores, I realize you only have a very small number contemplated currently.

How do you guys think about CVS' massive footprint and the notion of real estate and real estate choices in a way that would be I guess symbiotic to both organizations? I imagine you've had that discussion so how do you guys plan to sort that out?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Sure. And again Matt it's an important part of our plans going forward. Obviously we already have a pipeline of Express stores that we're looking to open.

Once the deal closes CVS will be part of that. And we'll have a CVS Health pharmacy in each of our new TargetExpress locations.

And as we talked about on the call and Larry and Dave talked about it earlier today as part of this we have agreed to co-develop 5 to 10 locations over the next couple of years. So we will continue to look at options to work together to make sure that our real estate strategies are complementary to both businesses. And we think it's going to be a great opportunity for us to continue to penetrate these growing urban sectors.

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**Matthew Fassler** - *Goldman Sachs - Analyst*

Great. And just one final follow-up. I'm not sure what you're typically able to do with customer data that originates in the pharmacy and there might be privacy issues, etc., about how you use it for marketing.

But to the extent that there are uses of that data whether it be for data for any customers coming into the store, how are you guys working with use of that data? And who is able to see it and deploy it from a marketing perspective?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Well Matt in some ways I think you answered the question. Obviously there are HIPAA regulations that are in place that ensure that that data is carefully managed. So those are not going to be information data sets that we will be sharing going forward.

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**Matthew Fassler** - *Goldman Sachs - Analyst*

Got it. Thank you so much.

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**Operator**

Wayne Hood, BMO Capital.

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**Wayne Hood** - *BMO Capital Markets - Analyst*

Good morning everyone. Brian I was just curious when you think of their PBM network and its ability to drive traffic into the Target stores can you speak to that a little bit?

And I think the question a minute ago about how this relationship benefits you is cost out, I'm thinking are we at a point where you're going to be able to lower the average generic drug cost to drive traffic through this network?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Well, Wayne, you've touched upon one of the very important benefits of this transaction as we think about driving growth in traffic. And now the fact that members of the Caremark, the PBM network and their members will have the ability to drop-off and pick up prescriptions inside of Target stores, we think that is a tremendous benefit going forward.

So a very important part of why we're so confident we will be able to drive traffic and improve scripts. And obviously CVS Health has a long history of being able to demonstrate that they can drive and improve script count. So we think the PBM network is a very important benefit that will drive shareholder value as part of this transaction.

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**Wayne Hood** - *BMO Capital Markets - Analyst*

And on the generic drug cost side are we looking at a point where those are going to drive those lower? And then if you could also just touch on how do you drive them into Target versus into CVS with respect to the PBMs?

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**John Mulligan** - *Target Corporation - EVP & CFO*

I think on the generic drug I think as we said we're a subscale player here. CVS has significant scale here and as part of that scale continue to drive improvements for customers and our guests as it relates to their interactions with their guests through time. And I think that's one of the key benefits they bring to us, Wayne.

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

And to your final question I think as we go forward this is all about providing convenience and choice and the ability for the PBM members to now conveniently drop-off their scripts in over 1,600 Target store locations. So we think we provide just broader convenience, more choice for those members. And obviously we're committed to providing great service once they walk inside of our doors.



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**Wayne Hood** - *BMO Capital Markets - Analyst*

All right, thank you, guys.

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**Operator**

Dan Binder, Jefferies.

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**Dan Binder** - *Jefferies LLC - Analyst*

Hi good morning and congratulations. I was wondering if you can give us a little bit of color on what the script performance growth wise has looked like recently and what does CVS think they can do to enhance that growth?

In other words how much I guess I'm thinking about it terms of script growth equals incremental traffic. So maybe a little bit of color on that.

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**John Mulligan** - *Target Corporation - EVP & CFO*

You know, Dan, we're not providing specifics on that. But I think CVS has shown in their own business performance an ability to continue to drive growth through scripts.

They've done that in other acquisitions which they've made. And so we're excited about the possibility of them bringing their scale and their clinical resources to our guests to provide a great experience for our guests that will ultimately drive script counts for our pharmacies as well.

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**Dan Binder** - *Jefferies LLC - Analyst*

And then just on the topic of customers at Target today, obviously they chose Target for a reason which means they didn't choose CVS or Walgreens or others. Do you have a good understanding of why your customer chooses Target today and not those others and are they as sticky as we think they should be?

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**John Mulligan** - *Target Corporation - EVP & CFO*

I think one of the great things we offer in the marketplace just broadly is one-stop shopping. You come to Target and you take care of many of your needs all at once. I think now when you bring CVS' scale and their clinical resources that provides an even larger opportunity to provide that one-stop shop to many, many more guests than are currently utilizing our pharmacy today.

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**Dan Binder** - *Jefferies LLC - Analyst*

Right. Make sense.

And just one last clarification. In your \$2 billion cost-savings program this \$1 billion of SG&A that comes out is not included in that, correct?

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**John Mulligan** - *Target Corporation - EVP & CFO*

Correct.



**Brian Cornell** - *Target Corporation - Chairman & CEO*

Correct.

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**Dan Binder** - *Jefferies LLC - Analyst*

Great, thank you.

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**Operator**

Simeon Gutman, Morgan Stanley.

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**Simeon Gutman** - *Morgan Stanley - Analyst*

Thanks. Simeon Gutman and congratulations as well.

My first question is can you shed any light on how many scripts or files are within your portfolio? And then the consideration that you're getting, can you give us a sense whether that's average within the industry above or below the norms?

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**John Mulligan** - *Target Corporation - EVP & CFO*

You know, we're not providing that detail but we feel very good about the transaction that we've structured today. We think it's a great win for our guests.

We think financially this will be a win for our shareholders both with the upfront consideration and through time as we grow traffic and sales together with CVS.

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**Simeon Gutman** - *Morgan Stanley - Analyst*

Okay, and then my follow-up is on the traffic side. High level having someone with that dominant a brand and that expertise it makes sense that the traffic should be lifted.

But it was mentioned earlier at some point that customer could get introduced to CVS which does have a very large retail network. And at that point the customer can choose wherever they want and I think it's just a fact of life with some of these PBM networks and pharmacies is that they become channel agnostic as to where that customer shops and that's part of the convenience of the network. So given that size of network I guess you can't control down the road where they shop or is it something you think multiple years down the road will keep on giving in terms of traffic?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Well again, Simeon, we come back to we think this is all about providing even greater convenience and choice for our guests and ensuring that we continue to provide a great one-stop shopping experience for them. So as we continue to elevate our focus on the front of the store, on our online capabilities we think we build a stronger relationship with our guest and if they are receiving the right services from a pharmacy standpoint we think we'll build even greater loyalty. So we think this complements our focus on building loyalty with our demanding enthusiasts, making sure that when they shop our stores or shop online we're offering a tremendous experience through our signature categories and the combination of that we think drives traffic and greater loyalty and growth for us.



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**Simeon Gutman** - *Morgan Stanley - Analyst*

And just to sneak a last one in on the buyback, if I got the math right or if I heard right, the \$1.2 billion in proceeds is going towards buyback. Is that within that \$10 billion full authorization or is this exclusive of it?

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**John Mulligan** - *Target Corporation - EVP & CFO*

No, everything we do from a buyback perspective would be within the bounds of our current authorization.

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**Simeon Gutman** - *Morgan Stanley - Analyst*

Okay, thank you.

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**Operator**

Priya Ohri-Gupta, Barclays.

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**Priya Ohri-Gupta** - *Barclays Capital - Analyst*

Great. Thank you so much for taking the question. Just actually a follow-up on that very last one.

In terms of the share repurchase, should we expect the \$1.2 billion to be incremental to what you've already identified as your plan for share repurchase activity this year? And then just secondly, do you plan to discontinue tobacco products within Target stores that are going to have the CVS/pharmacy location? Thank you.

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**John Mulligan** - *Target Corporation - EVP & CFO*

So Priya, we've not sold tobacco products in our stores for I think close to 20 years. So we are in complete alignment with CVS Health on that particular issue.

As it relates to the buyback we're not updating our guidance today. I said that.

We said the \$1.2 billion would be used consistent with our other capital allocation priorities including share repurchase. And I think probably importantly from your perspective this has no impact on our credit ratings. As I said we don't think we need to do anything related to debt because our EBITDA has effectively not moved at all.

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**Priya Ohri-Gupta** - *Barclays Capital - Analyst*

Thank you so much.

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**Operator**

Robby Ohmes, Bank of America Merrill Lynch.

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**Robby Ohmes** - *BofA Merrill Lynch - Analyst*

Hey, thanks for taking my question and giving me a chance to congratulate you guys on this. This sounds like a great deal you've done here.

Really a follow-up question I just wanted to see if you guys could elaborate. Are there any limitations on merchandising around the CVS pharmacies that will be in your stores next year? And maybe comment on things like the OTC business and the up and up private label versus CVS private label offerings and how should we think about what the merchandising opportunities around the new pharmacies could be for you guys and what limitations there might be?

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**Brian Cornell** - *Target Corporation - Chairman & CEO*

Robby, it's a great question. No, there won't be any limitations from a merchandising standpoint. And again we'll just continue to enhance our focus on those key signature categories including wellness which means a lot of the OTC items.

So we'll be focusing on our core strength, making great choices from an assortment standpoint for our guests, making sure that we have got an outstanding in-store presentation and continuing to make sure that we localize and personalize how we interact with our guests. So no limitations and it just strengthens our focus on those core strategic levers we've been talking about.

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**Robby Ohmes** - *BofA Merrill Lynch - Analyst*

Just a follow-up and my last question. Any other non-competes related to this, any restrictions on CVS doing something like this with one of your larger discount store competitors?

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**John Mulligan** - *Target Corporation - EVP & CFO*

There is some select number of competitors that we wouldn't want them to be working with. But beyond that limited number they of course will go about running their business as they have.

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**Robby Ohmes** - *BofA Merrill Lynch - Analyst*

Great, congrats again, guys. Thank you.

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**John Hulbert** - *Target Corporation - VP, IR*

Okay, we have time for one more question.

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**Operator**

Peter Benedict, Robert Baird.

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**Peter Benedict** - *Robert W. Baird & Company, Inc. - Analyst*

Hey guys, thanks. Sneaking in here.

Just to clarify, so if I'm a current Target pharmacy customer and after this change the cost of some of my generic drugs would very likely go down. That's number one. And then am I understanding it correctly that I would have access to maybe more generic drugs that I currently don't have access to with Target running the business or is that not right?

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**John Mulligan** - Target Corporation - EVP & CFO

I don't think that's right and what we said is that CVS will continue to offer \$4 and \$10 generics through a program to our cash paying guests.

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**Peter Benedict** - Robert W. Baird & Company, Inc. - Analyst

Okay and then the assortment, though, that's being offered, does that change at all with this agreement?

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**John Mulligan** - Target Corporation - EVP & CFO

I can speak to CVS' assortment. That would be a question better served by them.

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**Peter Benedict** - Robert W. Baird & Company, Inc. - Analyst

Okay. Thanks, John. Then the last question would be have you ever spoken to the average ticket of a prescription filled at Target maybe how that compares to CVS?

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**John Mulligan** - Target Corporation - EVP & CFO

We haven't spoken to that. And again I wouldn't know the comparison for CVS.

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**John Hulbert** - Target Corporation - VP, IR

Peter, thank you. Operator, that concludes our morning conference call. I really appreciate all of you joining us on short notice and thanks for your participation today.

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**Operator**

This does conclude today's conference call. You may now disconnect.

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