

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 3, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____
Commission File Number 1-6049



TARGET CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0215170

(I.R.S. Employer Identification No.)

1000 Nicollet Mall, Minneapolis, Minnesota

(Address of principal executive offices)

55403

(Zip Code)

Registrant's telephone number, including area code: 612/304-6073

Former name, former address and former fiscal year, if changed since last report: N/A

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common stock, par value \$0.0833 per share

TGT

New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practicable date. Total shares of common stock, par value \$0.0833, outstanding at August 26, 2019 were 510,928,517.

TARGET CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations

| (millions, except per share data) (unaudited) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Sales | \$ 18,183 | \$ 17,552 | \$ 35,584 | \$ 34,108 |
| Other revenue | 239 | 224 | 465 | 450 |
| Total revenue | 18,422 | 17,776 | 36,049 | 34,558 |
| Cost of sales | 12,625 | 12,239 | 24,874 | 23,865 |
| Selling, general and administrative expenses | 3,912 | 3,865 | 7,575 | 7,410 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 561 | 539 | 1,142 | 1,109 |
| Operating income | 1,324 | 1,133 | 2,458 | 2,174 |
| Net interest expense | 120 | 115 | 246 | 237 |
| Net other (income) / expense | (13) | (4) | (27) | (12) |
| Earnings from continuing operations before income taxes | 1,217 | 1,022 | 2,239 | 1,949 |
| Provision for income taxes | 279 | 223 | 509 | 433 |
| Net earnings from continuing operations | 938 | 799 | 1,730 | 1,516 |
| Discontinued operations, net of tax | — | — | 3 | 1 |
| Net earnings | \$ 938 | \$ 799 | \$ 1,733 | \$ 1,517 |
| Basic earnings per share | | | | |
| Continuing operations | \$ 1.83 | \$ 1.50 | \$ 3.37 | \$ 2.84 |
| Discontinued operations | — | — | 0.01 | — |
| Net earnings per share | \$ 1.83 | \$ 1.50 | \$ 3.37 | \$ 2.84 |
| Diluted earnings per share | | | | |
| Continuing operations | \$ 1.82 | \$ 1.49 | \$ 3.34 | \$ 2.81 |
| Discontinued operations | — | — | 0.01 | — |
| Net earnings per share | \$ 1.82 | \$ 1.49 | \$ 3.35 | \$ 2.82 |
| Weighted average common shares outstanding | | | | |
| Basic | 512.1 | 531.7 | 513.9 | 534.3 |
| Diluted | 516.1 | 536.3 | 517.8 | 538.6 |
| Antidilutive shares | — | — | — | — |

Note: Per share amounts may not foot due to rounding.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

| (millions) (unaudited) | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Net earnings | \$ 938 | \$ 799 | \$ 1,733 | \$ 1,517 |
| Other comprehensive income | | | | |
| Pension, net of tax | 10 | 16 | 20 | 29 |
| Currency translation adjustment and cash flow hedges, net of tax | — | (2) | 3 | (5) |
| Other comprehensive income | 10 | 14 | 23 | 24 |
| Comprehensive income | \$ 948 | \$ 813 | \$ 1,756 | \$ 1,541 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Financial Position

| (millions, except footnotes) (unaudited) | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|--|-------------------|---------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,656 | \$ 1,556 | \$ 1,180 |
| Inventory | 9,122 | 9,497 | 9,112 |
| Other current assets | 1,341 | 1,466 | 1,211 |
| Total current assets | 12,119 | 12,519 | 11,503 |
| Property and equipment | | | |
| Land | 6,054 | 6,064 | 6,074 |
| Buildings and improvements | 29,908 | 29,240 | 28,629 |
| Fixtures and equipment | 5,622 | 5,912 | 5,356 |
| Computer hardware and software | 2,627 | 2,544 | 2,575 |
| Construction-in-progress | 667 | 460 | 685 |
| Accumulated depreciation | (18,866) | (18,687) | (18,147) |
| Property and equipment, net | 26,012 | 25,533 | 25,172 |
| Operating lease assets | 2,062 | 1,965 | 1,976 |
| Other noncurrent assets | 1,373 | 1,273 | 1,345 |
| Total assets | \$ 41,566 | \$ 41,290 | \$ 39,996 |
| Liabilities and shareholders' investment | | | |
| Accounts payable | \$ 9,152 | \$ 9,761 | \$ 9,116 |
| Accrued and other current liabilities | 4,059 | 4,201 | 3,878 |
| Current portion of long-term debt and other borrowings | 1,153 | 1,052 | 1,044 |
| Total current liabilities | 14,364 | 15,014 | 14,038 |
| Long-term debt and other borrowings | 10,365 | 10,223 | 10,108 |
| Noncurrent operating lease liabilities | 2,111 | 2,004 | 2,028 |
| Deferred income taxes | 1,082 | 972 | 828 |
| Other noncurrent liabilities | 1,808 | 1,780 | 1,827 |
| Total noncurrent liabilities | 15,366 | 14,979 | 14,791 |
| Shareholders' investment | | | |
| Common stock | 43 | 43 | 44 |
| Additional paid-in capital | 6,114 | 6,042 | 5,788 |
| Retained earnings | 6,461 | 6,017 | 6,058 |
| Accumulated other comprehensive loss | (782) | (805) | (723) |
| Total shareholders' investment | 11,836 | 11,297 | 11,167 |
| Total liabilities and shareholders' investment | \$ 41,566 | \$ 41,290 | \$ 39,996 |

Common Stock Authorized 6,000,000,000 shares, \$0.0833 par value; 511,335,375, 517,761,600 and 526,112,846 shares issued and outstanding at August 3, 2019, February 2, 2019, and August 4, 2018, respectively.

Preferred Stock Authorized 5,000,000 shares, \$0.01 par value; no shares were issued or outstanding during any period presented.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| (millions) (unaudited) | Six Months Ended | |
|--|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 |
| Operating activities | | |
| Net earnings | \$ 1,733 | \$ 1,517 |
| Earnings from discontinued operations, net of tax | 3 | 1 |
| Net earnings from continuing operations | 1,730 | 1,516 |
| Adjustments to reconcile net earnings to cash provided by operations | | |
| Depreciation and amortization | 1,267 | 1,234 |
| Share-based compensation expense | 86 | 71 |
| Deferred income taxes | 104 | 129 |
| Noncash losses / (gains) and other, net | 42 | 99 |
| Changes in operating accounts | | |
| Inventory | 375 | (515) |
| Other assets | 64 | 1 |
| Accounts payable | (731) | 342 |
| Accrued and other liabilities | (127) | (154) |
| Cash provided by operating activities—continuing operations | 2,810 | 2,723 |
| Cash provided by operating activities—discontinued operations | 2 | 1 |
| Cash provided by operations | 2,812 | 2,724 |
| Investing activities | | |
| Expenditures for property and equipment | (1,394) | (1,856) |
| Proceeds from disposal of property and equipment | 10 | 15 |
| Other investments | — | 3 |
| Cash required for investing activities | (1,384) | (1,838) |
| Financing activities | | |
| Additions to long-term debt | 994 | — |
| Reductions of long-term debt | (1,026) | (255) |
| Dividends paid | (658) | (665) |
| Repurchase of stock | (662) | (954) |
| Accelerated share repurchase pending final settlement | — | (525) |
| Stock option exercises | 24 | 50 |
| Cash required for financing activities | (1,328) | (2,349) |
| Net increase / (decrease) in cash and cash equivalents | 100 | (1,463) |
| Cash and cash equivalents at beginning of period | 1,556 | 2,643 |
| Cash and cash equivalents at end of period | \$ 1,656 | \$ 1,180 |
| Supplemental information | | |
| Leased assets obtained in exchange for new finance lease liabilities | \$ 156 | \$ 15 |
| Leased assets obtained in exchange for new operating lease liabilities | 195 | 169 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Investment

| (millions) (unaudited) | Common Stock Shares | Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) / Income | Total |
|---|---------------------------|-----------------------|----------------------------------|----------------------|---|-----------|
| February 3, 2018 | 541.7 | \$ 45 | \$ 5,858 | \$ 6,495 | \$ (747) | \$ 11,651 |
| Net earnings | — | — | — | 718 | — | 718 |
| Other comprehensive income | — | — | — | — | 10 | 10 |
| Dividends declared | — | — | — | (333) | — | (333) |
| Repurchase of stock | (6.9) | (1) | — | (493) | — | (494) |
| Accelerated share repurchase pending final settlement | (2.9) | — | (225) | (200) | — | (425) |
| Stock options and awards | 1.0 | — | 31 | — | — | 31 |
| May 5, 2018 | 532.9 | \$ 44 | \$ 5,664 | \$ 6,187 | \$ (737) | \$ 11,158 |
| Net earnings | — | — | — | 799 | — | 799 |
| Other comprehensive income | — | — | — | — | 14 | 14 |
| Dividends declared | — | — | — | (341) | — | (341) |
| Repurchase of stock | (2.9) | — | 225 | (232) | — | (7) |
| Accelerated share repurchase pending final settlement | (4.6) | — | (170) | (355) | — | (525) |
| Stock options and awards | 0.7 | — | 69 | — | — | 69 |
| August 4, 2018 | 526.1 | \$ 44 | \$ 5,788 | \$ 6,058 | \$ (723) | \$ 11,167 |
| Net earnings | — | — | — | 622 | — | 622 |
| Other comprehensive income | — | — | — | — | 9 | 9 |
| Dividends declared | — | — | — | (338) | — | (338) |
| Repurchase of stock | (1.7) | (1) | 170 | (171) | — | (2) |
| Accelerated share repurchase pending final settlement | (3.5) | — | (163) | (287) | — | (450) |
| Stock options and awards | 0.9 | — | 72 | — | — | 72 |
| November 3, 2018 | 521.8 | \$ 43 | \$ 5,867 | \$ 5,884 | \$ (714) | \$ 11,080 |
| Net earnings | — | — | — | 799 | — | 799 |
| Other comprehensive loss | — | — | — | — | (91) | (91) |
| Dividends declared | — | — | — | (336) | — | (336) |
| Repurchase of stock | (4.7) | — | 163 | (330) | — | (167) |
| Stock options and awards | 0.7 | — | 12 | — | — | 12 |
| February 2, 2019 | 517.8 | \$ 43 | \$ 6,042 | \$ 6,017 | \$ (805) | \$ 11,297 |

Consolidated Statements of Shareholders' Investment

| (millions) (unaudited) | Common Stock Shares | Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) / Income | Total |
|--|---------------------------|-----------------------|----------------------------------|----------------------|---|-----------|
| February 2, 2019 | 517.8 | \$ 43 | \$ 6,042 | \$ 6,017 | \$ (805) | \$ 11,297 |
| Net earnings | — | — | — | 795 | — | 795 |
| Other comprehensive income | — | — | — | — | 13 | 13 |
| Dividends declared | — | — | — | (330) | — | (330) |
| Repurchase of stock | (3.6) | — | — | (277) | — | (277) |
| Accelerated share repurchase pending final settlement | (3.0) | — | (153) | (247) | — | (400) |
| Stock options and awards | 1.1 | — | 19 | — | — | 19 |
| May 4, 2019 | 512.3 | \$ 43 | \$ 5,908 | \$ 5,958 | \$ (792) | \$ 11,117 |
| Net earnings | — | — | — | 938 | — | 938 |
| Other comprehensive income | — | — | — | — | 10 | 10 |
| Dividends declared | — | — | — | (341) | — | (341) |
| Repurchase of stock | (1.3) | — | 153 | (94) | — | 59 |
| Stock options and awards | 0.3 | — | 53 | — | — | 53 |
| August 3, 2019 | 511.3 | \$ 43 | \$ 6,114 | \$ 6,461 | \$ (782) | \$ 11,836 |

We declared \$0.66 and \$0.64 dividends per share for the three months ended August 3, 2019, and August 4, 2018, respectively, and \$2.54 per share for the fiscal year ended February 2, 2019.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (unaudited)

1. Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial statements. While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by United States (U.S.) generally accepted accounting principles (U.S. GAAP) for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the financial statement disclosures in our 2018 Form 10-K.

We use the same accounting policies in preparing quarterly and annual financial statements. Unless otherwise noted, amounts presented within the Notes to Consolidated Financial Statements refer to our continuing operations.

We operate as a single segment that includes all of our continuing operations, which are designed to enable guests to purchase products seamlessly in stores or through our digital channels. Nearly all of our revenues are generated in the U.S. The vast majority of our long-lived assets are located within the U.S.

Due to the seasonal nature of our business, quarterly revenues, expenses, earnings, and cash flows are not necessarily indicative of the results that may be expected for the full year.

2. Revenues

General merchandise sales represent the vast majority of our revenues. We also earn revenues from a variety of other sources, most notably credit card profit sharing income from our arrangement with TD Bank Group (TD).

| Revenues (millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Apparel and accessories ^(a) | \$ 3,656 | \$ 3,470 | \$ 6,946 | \$ 6,584 |
| Beauty and household essentials ^(a) | 5,076 | 4,784 | 10,047 | 9,401 |
| Food and beverage | 3,460 | 3,372 | 7,182 | 6,959 |
| Hardlines | 2,503 | 2,501 | 4,889 | 4,814 |
| Home furnishings and décor | 3,457 | 3,402 | 6,458 | 6,304 |
| Other | 31 | 23 | 62 | 46 |
| Sales | 18,183 | 17,552 | 35,584 | 34,108 |
| Credit card profit sharing | 168 | 167 | 328 | 333 |
| Other | 71 | 57 | 137 | 117 |
| Other revenue | 239 | 224 | 465 | 450 |
| Total revenue | \$ 18,422 | \$ 17,776 | \$ 36,049 | \$ 34,558 |

^(a) We reclassified certain non-apparel baby merchandise sales totaling \$398 million and \$854 million for the three and six months ended August 3, 2019, respectively, and \$373 million and \$763 million for the three and six months ended August 4, 2018, respectively, from Apparel and Accessories to Beauty and Household Essentials.

We record almost all retail store revenues at the point of sale. Digitally originated sales may include shipping revenue and are recorded upon delivery to the guest or upon guest pickup at the store. Sales are recognized net of expected returns, which we estimate using historical return patterns and our expectation of future returns. As of August 3, 2019, February 2, 2019, and August 4, 2018, the accrual for estimated returns was \$131 million, \$116 million, and \$114 million, respectively. We have not historically had material adjustments to our returns estimates.

Revenue from Target gift card sales is recognized upon gift card redemption, which is typically within one year of issuance.

| (millions) | February 2, 2019 | Gift Cards Issued During Current Period But Not Redeemed ^(a) | Revenue Recognized From Beginning Liability | August 3, 2019 |
|---------------------|---------------------|--|---|-------------------|
| Gift card liability | \$ 840 | \$ 317 | \$ (465) | \$ 692 |

^(a) Net of estimated breakage.

Credit card profit sharing – We receive payments under a credit card program agreement with TD. Under the agreement, we receive a percentage of the profits generated by the Target Credit Card and Target MasterCard receivables in exchange for performing account servicing and primary marketing functions. TD underwrites, funds, and owns Target Credit Card and Target MasterCard receivables, controls risk management policies, and oversees regulatory compliance.

3. Fair Value Measurements

Fair value measurements are reported in one of three levels reflecting the valuation techniques used to determine fair value.

| Fair Value Measurements - Recurring Basis | | | Fair Value at | | |
|---|------------------------------|---------------------|-------------------|---------------------|-------------------|
| (millions) | Classification | Pricing Category | August 3, 2019 | February 2, 2019 | August 4, 2018 |
| Assets | | | | | |
| Short-term investments | Cash and Cash Equivalents | Level 1 | \$ 796 | \$ 769 | \$ 353 |
| Prepaid forward contracts | Other Current Assets | Level 1 | 20 | 19 | 22 |
| Interest rate swaps | Other Noncurrent Assets | Level 2 | 108 | 10 | — |
| Liabilities | | | | | |
| Interest rate swaps | Other Current Liabilities | Level 2 | — | 3 | 7 |
| Interest rate swaps | Other Noncurrent Liabilities | Level 2 | — | — | 2 |

| Significant Financial Instruments not Measured at Fair Value ^(a) | August 3, 2019 | | February 2, 2019 | | August 4, 2018 | |
|---|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (millions) | | | | | | |
| Long-term debt, including current portion ^(b) | \$ 10,244 | \$ 11,635 | \$ 10,247 | \$ 10,808 | \$ 10,243 | \$ 10,682 |

^(a) The carrying amounts of certain other current assets, commercial paper, accounts payable, and certain accrued and other current liabilities approximate fair value due to their short-term nature.

^(b) The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for the same or similar types of financial instruments and would be classified as Level 2. These amounts exclude commercial paper, unamortized swap valuation adjustments, and lease liabilities.

4. Property and Equipment

We review long-lived assets for impairment when store performance expectations, events, or changes in circumstances—such as a decision to relocate or close a store or distribution center, discontinue projects, or make significant software changes—indicate that the asset's carrying value may not be recoverable. We recognized impairment charges of \$10 million and \$13 million during the three and six months ended August 3, 2019, respectively, primarily resulting from store impairments. We recognized impairment charges of \$78 million and \$85 million during the three and six months ended August 4, 2018, respectively, primarily resulting from planned store closures. The impairment charges are recorded in Selling, General and Administrative Expenses.

5. Commercial Paper and Long-Term Debt

In March 2019, we issued \$1,000 million of 10-year unsecured fixed rate debt at 3.375 percent, and in June 2019, we repaid \$1,000 million of 2.3 percent unsecured fixed rate debt at maturity.

Our commercial paper program provides a source of short-term financing. For the six months ended August 3, 2019, the maximum amount outstanding was \$744 million, and the average daily amount outstanding was \$74 million at a weighted average annual interest rate of 2.4 percent. For the six months ended August 4, 2018, the maximum amount outstanding was \$658 million, and the average daily amount outstanding was \$63 million at a weighted average annual interest rate of 1.8 percent. As of August 3, 2019, and August 4, 2018, no balances were outstanding.

6. Derivative Financial Instruments

Our derivative instruments consist of interest rate swaps used to mitigate interest rate risk. As a result, we have counterparty credit exposure to large global financial institutions, which we monitor on an ongoing basis. Note 3 provides the fair value and classification of these instruments.

In March 2019, we entered into interest rate swaps with a total notional amount of \$1,000 million, and in June 2019, interest rate swaps with a total notional amount of \$1,000 million matured. As of August 3, 2019, we were party to interest rate swaps with notional amounts totaling \$1,500 million, compared with \$1,250 million as of August 4, 2018. We pay a variable rate and receive a fixed rate under each of these agreements. All of the agreements are designated as fair value hedges, and all were perfectly effective during the three and six months ended August 3, 2019, and August 4, 2018.

Effect of Hedges on Debt

| (millions) | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|---|-------------------|---------------------|-------------------|
| Current portion of long-term debt and other borrowings | | | |
| Carrying amount of hedged debt | \$ — | \$ 996 | \$ 992 |
| Cumulative hedging adjustments, included in carrying amount | — | (3) | (7) |
| Long-term debt and other borrowings | | | |
| Carrying amount of hedged debt | 1,600 | 508 | 247 |
| Cumulative hedging adjustments, included in carrying amount | 108 | 10 | (2) |

Effect of Hedges on Net Interest Expense

| (millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Gain (loss) on fair value hedges recognized in Net Interest Expense | | | | |
| Interest rate swap designated as fair value hedges | \$ 86 | \$ 1 | \$ 101 | \$ (3) |
| Hedged debt | (86) | (1) | (101) | 3 |
| Total | \$ — | \$ — | \$ — | \$ — |

7. Share Repurchase

We periodically repurchase shares of our common stock under a board-authorized repurchase program through a combination of open market transactions, accelerated share repurchase (ASR) arrangements, and other privately negotiated transactions with financial institutions.

| (millions, except per share data) | Three Months Ended | | Six Months Ended | |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | August 3, 2019 ^(a) | August 4, 2018 ^(b) | August 3, 2019 ^(a) | August 4, 2018 ^(b) |
| Total number of shares purchased | 4.3 | 5.8 | 7.9 | 12.7 |
| Average price paid per share | \$ 80.02 | \$ 74.31 | \$ 78.63 | \$ 72.64 |
| Total investment | \$ 341 | \$ 431 | \$ 618 | \$ 925 |

^(a) Includes activity related to the ASR arrangement entered in first quarter 2019 because final settlement occurred in second quarter 2019. Under the ASR arrangement, we repurchased 4.2 million shares for a total cash investment of \$340 million. We did not enter into any new ASR arrangements during second quarter 2019.

^(b) Activity related to the second quarter 2018 ASR arrangement described below is omitted because final settlement had not occurred as of August 4, 2018.

During the second quarter of 2018, we entered into an ASR arrangement to repurchase \$400 to \$525 million of our common stock. Under the agreement, we paid \$525 million and received an initial delivery of 4.6 million shares, which were retired, resulting in a \$355 million reduction to Retained Earnings. As of August 4, 2018, \$170 million was included as a reduction to Additional Paid-in Capital. Upon final settlement in the third quarter of 2018, we received an additional 0.2 million shares, which were retired, and \$125 million for the remaining amount not settled in shares. In total, we repurchased 4.8 million shares under the ASR arrangement for a total cash investment of \$400 million (\$83.88 per share).

8. Pension Benefits

We provide pension plan benefits to eligible team members.

| (millions) | Classification | Three Months Ended | | Six Months Ended | |
|---|------------------------------|--------------------|----------------|------------------|----------------|
| | | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Net Pension Benefits Expense | | | | | |
| Service cost benefits earned | SG&A Expenses | \$ 23 | \$ 25 | \$ 46 | \$ 49 |
| Interest cost on projected benefit obligation | Net Other (Income) / Expense | 37 | 37 | 74 | 73 |
| Expected return on assets | Net Other (Income) / Expense | (62) | (62) | (124) | (123) |
| Amortization of losses | Net Other (Income) / Expense | 16 | 20 | 31 | 41 |
| Amortization of prior service cost | Net Other (Income) / Expense | (3) | (3) | (5) | (6) |
| Settlement charges | Net Other (Income) / Expense | — | 3 | — | 3 |
| Total | | \$ 11 | \$ 20 | \$ 22 | \$ 37 |

9. Accumulated Other Comprehensive (Loss)/ Income

| (millions) | Cash Flow Hedges | Currency Translation Adjustment | Pension | Total |
|---|------------------|---------------------------------|----------|----------|
| February 2, 2019 | \$ (13) | \$ (20) | \$ (772) | \$ (805) |
| Other comprehensive income before reclassifications, net of tax | — | 3 | — | 3 |
| Amounts reclassified from AOCI, net of tax | — | — | 20 | 20 |
| August 3, 2019 | \$ (13) | \$ (17) | \$ (752) | \$ (782) |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

Second quarter 2019 includes the following notable items:

- GAAP earnings per share from continuing operations and adjusted earnings per share were \$1.82.
- Total revenue increased 3.6 percent, driven by a comparable sales increase and sales from new stores.
- Comparable sales increased 3.4 percent, driven by a 2.4 percent increase in traffic.
 - Comparable store sales grew 1.5 percent.
 - Digital channel sales increased 34 percent, contributing 1.8 percentage points to comparable sales growth.
- Operating income of \$1,324 million was 16.9 percent higher than the comparable prior-year period.

Sales were \$18,183 million for the three months ended August 3, 2019, an increase of \$631 million, or 3.6 percent, from the same period in the prior year. Operating cash flow provided by continuing operations was \$2,810 million for the six months ended August 3, 2019, an increase of \$87 million, or 3.2 percent, from \$2,723 million for the six months ended August 4, 2018.

| Earnings Per Share from Continuing Operations | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|----------------|--------|------------------|----------------|--------|
| | August 3, 2019 | August 4, 2018 | Change | August 3, 2019 | August 4, 2018 | Change |
| GAAP diluted earnings per share | \$ 1.82 | \$ 1.49 | 22.0% | \$ 3.34 | \$ 2.81 | 18.7% |
| Adjustments | — | (0.02) | | — | (0.03) | |
| Adjusted diluted earnings per share | \$ 1.82 | \$ 1.47 | 23.9% | \$ 3.34 | \$ 2.78 | 20.1% |

Note: Amounts may not foot due to rounding. Adjusted diluted earnings per share from continuing operations (Adjusted EPS), a non-GAAP metric, excludes the impact of certain items. Management believes that Adjusted EPS is useful in providing period-to-period comparisons of the results of our continuing operations. A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 17.

For the trailing twelve months ended August 3, 2019, after-tax return on invested capital from continuing operations (ROIC) was 15.2 percent, compared with 16.0 percent for the trailing twelve months ended August 4, 2018. Excluding the discrete impacts of the Tax Cuts and Jobs Act of 2017 (Tax Act), ROIC was 15.0 percent and 14.2 percent for the trailing twelve months ended August 3, 2019, and August 4, 2018, respectively. The calculation of ROIC is provided on page 18.

Analysis of Results of Operations

| (dollars in millions) | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|----------------|--------|------------------|----------------|--------|
| | August 3, 2019 | August 4, 2018 | Change | August 3, 2019 | August 4, 2018 | Change |
| Sales | \$ 18,183 | \$ 17,552 | 3.6% | \$ 35,584 | \$ 34,108 | 4.3% |
| Other revenue | 239 | 224 | 6.3 | 465 | 450 | 3.4 |
| Total revenue | 18,422 | 17,776 | 3.6 | 36,049 | 34,558 | 4.3 |
| Cost of sales | 12,625 | 12,239 | 3.1 | 24,874 | 23,865 | 4.2 |
| Selling, general and administrative expenses | 3,912 | 3,865 | 1.2 | 7,575 | 7,410 | 2.2 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 561 | 539 | 4.1 | 1,142 | 1,109 | 3.0 |
| Operating income | \$ 1,324 | \$ 1,133 | 16.9% | \$ 2,458 | \$ 2,174 | 13.1% |

| Rate Analysis | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------------|------------------|----------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Gross margin rate | 30.6% | 30.3% | 30.1% | 30.0% |
| SG&A expense rate | 21.2 | 21.7 | 21.0 | 21.4 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate | 3.0 | 3.0 | 3.2 | 3.2 |
| Operating income margin rate | 7.2 | 6.4 | 6.8 | 6.3 |

Note: Gross margin rate is calculated as gross margin (sales less cost of sales) divided by sales. All other rates are calculated by dividing the applicable amount by total revenue.

Sales

Sales include all merchandise sales, net of expected returns, and gift card breakage. Comparable sales is a measure that highlights the performance of our stores and digital channels by measuring the change in sales for a period over the comparable, prior-year period of equivalent length. Comparable sales include all sales, except sales from stores open less than 13 months, digital acquisitions we have owned less than 13 months, stores that have been closed, and digital acquisitions that we no longer operate. Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies. Digitally originated sales include all sales initiated through mobile applications and our websites. Our stores fulfill the majority of digitally originated sales, including shipment from stores to guests, store pick-up or drive-up, and delivery via our wholly-owned subsidiary, Shipt. Digitally originated sales may also be fulfilled through our distribution centers, our vendors, or other third parties.

The increase in sales during the three and six months ended August 3, 2019, is due to a comparable sales increase of 3.4 percent and 4.1 percent, respectively, and the contribution from new stores.

| Comparable Sales | Three Months Ended | | Six Months Ended | |
|---------------------------------------|--------------------|----------------|------------------|----------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Comparable sales change | 3.4% | 6.5% | 4.1% | 4.8% |
| Drivers of change in comparable sales | | | | |
| Number of transactions | 2.4 | 6.4 | 3.3 | 5.0 |
| Average transaction amount | 0.9 | 0.1 | 0.7 | (0.3) |

Note: Amounts may not foot due to rounding.

| Contribution to Comparable Sales Change | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------------|-------------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Stores channel comparable sales change | 1.5% | 4.9% | 2.1% | 3.4% |
| Digital channel contribution to comparable sales change | 1.8 | 1.5 | 1.9 | 1.3 |
| Total comparable sales change | 3.4% | 6.5% | 4.1% | 4.8% |

Note: Amounts may not foot due to rounding.

| Sales by Channel | Three Months Ended | | Six Months Ended | |
|-------------------------|---------------------------|-------------------|-------------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Stores originated | 92.7% | 94.4% | 92.8% | 94.6% |
| Digitally originated | 7.3 | 5.6 | 7.2 | 5.4 |
| Total | 100% | 100% | 100% | 100% |

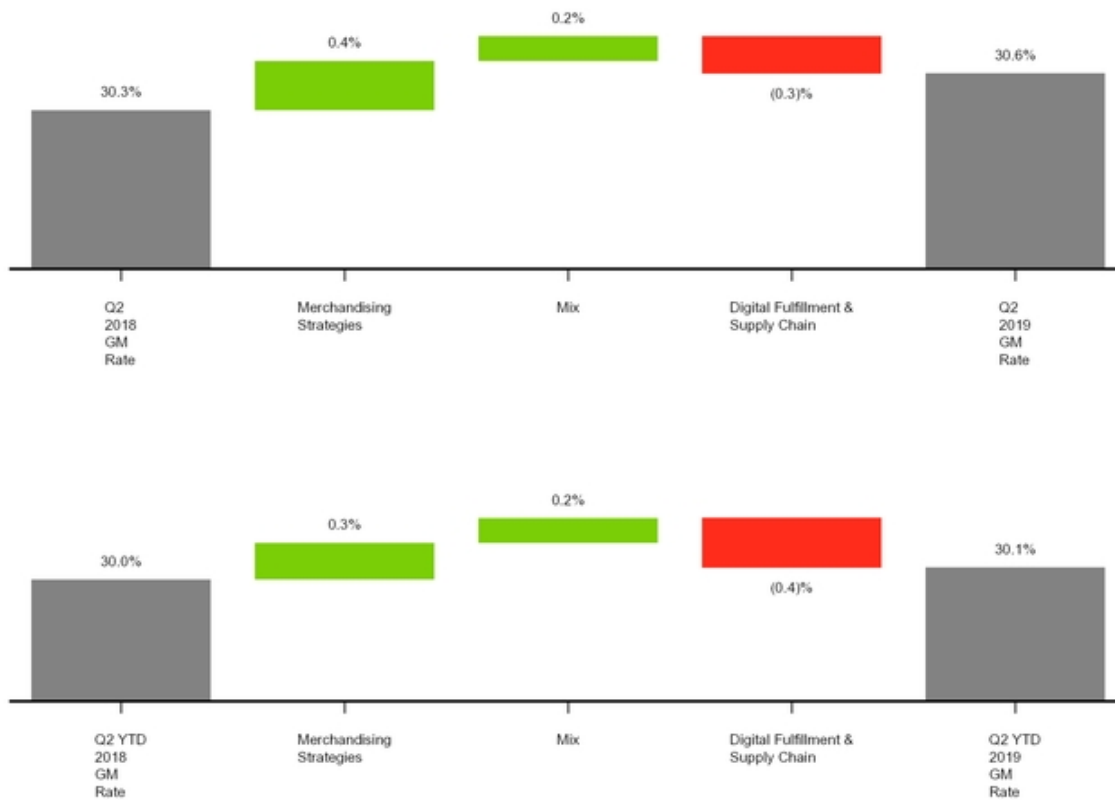
Note 2 to the Consolidated Financial Statements provides sales by product category. The collective interaction of a broad array of macroeconomic, competitive, and consumer behavioral factors, as well as sales mix, and transfer of sales to new stores makes further analysis of sales metrics infeasible.

We monitor the percentage of purchases that are paid for using REDcards (REDcard Penetration) because our internal analysis has indicated that a meaningful portion of the incremental purchases on REDcards are also incremental sales for Target. Guests receive a 5 percent discount on virtually all purchases when they use a REDcard at Target.

| REDcard Penetration | Three Months Ended | | Six Months Ended | |
|----------------------------------|---------------------------|-------------------|-------------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Target Debit Card | 12.5% | 13.0% | 12.8% | 13.2% |
| Target Credit Cards | 10.7 | 10.9 | 10.6 | 10.8 |
| Total REDcard Penetration | 23.2% | 23.9% | 23.4% | 24.0% |

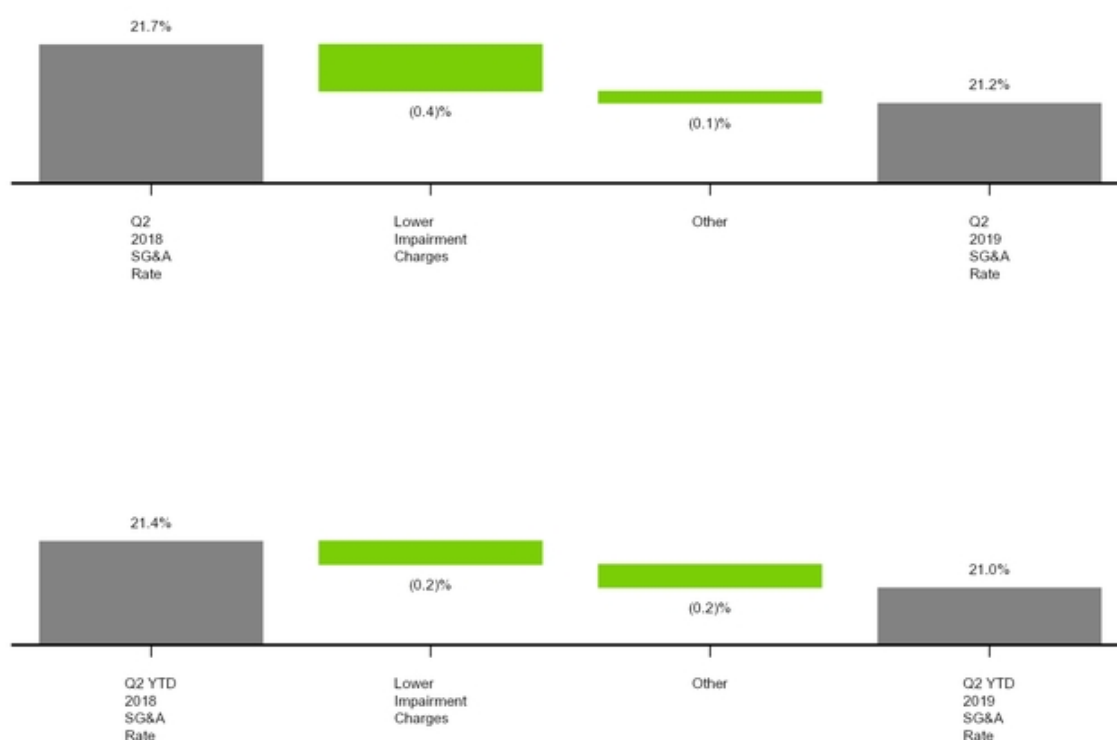
Note: Amounts may not foot due to rounding.

Gross Margin Rate



For the three and six months ended August 3, 2019, our gross margin rate was 30.6 percent and 30.1 percent, respectively, compared with 30.3 percent and 30.0 percent, respectively, in the comparable periods last year. The increase was primarily due to merchandising efforts to optimize costs, pricing, promotions, and assortment, combined with favorable category sales mix, partially offset by increased digital fulfillment and supply chain costs.

Selling, General, and Administrative Expense Rate



For the three and six months ended August 3, 2019, our SG&A expense rate was 21.2 percent and 21.0 percent, respectively, compared with 21.7 percent and 21.4 percent, respectively, in the comparable periods last year. The decrease reflects lower impairment charges in 2019, timing of certain expenses, and other broad-based cost savings. For the three and six months ended August 3, 2019, store labor productivity offset pressure from wage growth.

Store Data

| Change in Number of Stores | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|----------------|------------------|----------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Beginning store count | 1,851 | 1,829 | 1,844 | 1,822 |
| Opened | 4 | 6 | 11 | 13 |
| Closed | (2) | — | (2) | — |
| Ending store count | 1,853 | 1,835 | 1,853 | 1,835 |

| Number of Stores and Retail Square Feet | Number of Stores | | | Retail Square Feet ^(a) | | |
|--|-------------------|---------------------|-------------------|-----------------------------------|---------------------|-------------------|
| | August 3, 2019 | February 2, 2019 | August 4, 2018 | August 3, 2019 | February 2, 2019 | August 4, 2018 |
| 170,000 or more sq. ft. | 272 | 272 | 274 | 48,619 | 48,604 | 48,952 |
| 50,000 to 169,999 sq. ft. | 1,499 | 1,501 | 1,502 | 188,711 | 188,900 | 189,258 |
| 49,999 or less sq. ft. | 82 | 71 | 59 | 2,357 | 2,077 | 1,644 |
| Total | 1,853 | 1,844 | 1,835 | 239,687 | 239,581 | 239,854 |

^(a) In thousands, reflects total square feet less office, distribution center, and vacant space.

Other Performance Factors

Net Interest Expense

Net interest expense from continuing operations was \$120 million and \$246 million for the three and six months ended August 3, 2019, respectively, and \$115 million and \$237 million for the three and six months ended August 4, 2018, respectively. The increase is due to a higher average debt balance during the three and six months ended August 3, 2019, as compared with the prior-year periods.

Provision for Income Taxes

Our effective income tax rate from continuing operations for the three and six months ended August 3, 2019, was 23.0 percent and 22.7 percent, respectively, compared with 21.8 percent and 22.2 percent, respectively, for the comparable periods last year. The effective income tax rates for the three and six months ended August 4, 2018, included benefits from the resolution of certain income tax matters unrelated to current period operations.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

To provide additional transparency, we have disclosed non-GAAP adjusted diluted earnings per share from continuing operations (Adjusted EPS). This metric excludes certain items presented below. We believe this information is useful in providing period-to-period comparisons of the results of our continuing operations. This measure is not in accordance with, or an alternative to, generally accepted accounting principles in the U.S. (GAAP). The most comparable GAAP measure is diluted earnings per share from continuing operations. Adjusted EPS should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate Adjusted EPS differently, limiting the usefulness of the measure for comparisons with other companies.

| (millions, except per share data) | Three Months Ended | | | | | |
|--|--------------------|------------|-------------------|----------------|------------|-------------------|
| | August 3, 2019 | | | August 4, 2018 | | |
| | Pretax | Net of Tax | Per Share Amounts | Pretax | Net of Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | | \$ 1.82 | | | \$ 1.49 |
| Adjustments | | | | | | |
| Income tax matters ^(a) | — | — | — | — | (12) | (0.02) |
| Adjusted diluted earnings per share from continuing operations | | | \$ 1.82 | | | \$ 1.47 |

| (millions, except per share data) | Six Months Ended | | | | | |
|--|------------------|------------|-------------------|----------------|------------|-------------------|
| | August 3, 2019 | | | August 4, 2018 | | |
| | Pretax | Net of Tax | Per Share Amounts | Pretax | Net of Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | | \$ 3.34 | | | \$ 2.81 |
| Adjustments | | | | | | |
| Income tax matters ^(a) | — | — | — | — | (18) | (0.03) |
| Adjusted diluted earnings per share from continuing operations | | | \$ 3.34 | | | \$ 2.78 |

Note: Amounts may not foot due to rounding.

^(a) Represents benefits from the resolution of certain income tax matters unrelated to current period operations.

Earnings from continuing operations before interest expense and income taxes (EBIT) and earnings before interest expense, income taxes, depreciation and amortization (EBITDA) are non-GAAP financial measures which we believe provide meaningful information about our operational efficiency compared with our competitors by excluding the impact of differences in tax jurisdictions and structures, debt levels, and for EBITDA, capital investment. These measures are not in accordance with, or an alternative to, GAAP. The most comparable GAAP measure is net earnings from continuing operations. EBIT and EBITDA should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate EBIT and EBITDA differently, limiting the usefulness of the measure for comparisons with other companies.

| EBIT and EBITDA (dollars in millions) (unaudited) | Three Months Ended | | | Six Months Ended | | |
|--|---|----------------|--------|------------------|----------------|----------|
| | August 3, 2019 | August 4, 2018 | Change | August 3, 2019 | August 4, 2018 | Change |
| | Net earnings from continuing operations | \$ 938 | \$ 799 | 17.4% | \$ 1,730 | \$ 1,516 |
| + Provision for income taxes | 279 | 223 | 25.2 | 509 | 433 | 17.5 |
| + Net interest expense | 120 | 115 | 4.3 | 246 | 237 | 3.8 |
| EBIT | \$ 1,337 | \$ 1,137 | 17.6% | \$ 2,485 | \$ 2,186 | 13.6% |
| + Total depreciation and amortization ^(a) | 624 | 603 | 3.5 | 1,267 | 1,234 | 2.7 |
| EBITDA | \$ 1,961 | \$ 1,740 | 12.7% | \$ 3,752 | \$ 3,420 | 9.7% |

^(a) Represents total depreciation and amortization, including amounts classified within Depreciation and Amortization and within Cost of Sales.

We have also disclosed after-tax ROIC, which is a ratio based on GAAP information. We believe this metric is useful in assessing the effectiveness of our capital allocation over time. Other companies may calculate ROIC differently, limiting the usefulness of the measure for comparisons with other companies.

After-Tax Return on Invested Capital

(dollars in millions)

| | Trailing Twelve Months | | |
|--|------------------------|----------------------------------|------------------|
| | August 3, 2019 | August 4, 2018 ^(a) | July 29, 2017 |
| Numerator | | | |
| Operating income | \$ 4,395 | \$ 4,150 | |
| + Net other income / (expense) | 42 | 41 | |
| EBIT | 4,437 | 4,191 | |
| + Operating lease interest ^(b) | 85 | 81 | |
| - Income taxes ^{(c)(d)} | 937 | 589 | |
| Net operating profit after taxes | \$ 3,585 | \$ 3,683 | |
| Denominator | | | |
| Current portion of long-term debt and other borrowings | \$ 1,153 | \$ 1,044 | \$ 1,365 |
| + Noncurrent portion of long-term debt | 10,365 | 10,108 | 10,706 |
| + Shareholders' equity | 11,836 | 11,167 | 11,055 |
| + Operating lease liabilities ^(e) | 2,285 | 2,183 | 2,032 |
| - Cash and cash equivalents | 1,656 | 1,180 | 2,291 |
| - Net assets of discontinued operations ^(f) | — | — | 10 |
| Invested capital | \$ 23,983 | \$ 23,322 | \$ 22,857 |
| Average invested capital ^(g) | \$ 23,652 | \$ 23,090 | |
| After-tax return on invested capital ^(d) | 15.2% | 16.0% | |
| After-tax return on invested capital excluding discrete impacts of Tax Act ^(d) | 15.0% | 14.2% | |

^(a) Consisted of 53 weeks.

^(b) Represents the add-back to operating income driven by the hypothetical interest expense we would incur if the property under our operating leases were owned or accounted for as finance leases. Calculated using the discount rate for each lease and recorded as a component of rent expense within SG&A Expenses. Operating lease interest is added back to operating income in the ROIC calculation to control for differences in capital structure between us and our competitors.

^(c) Calculated using the effective tax rates for continuing operations, which were 20.7 percent and 13.8 percent for the trailing twelve months ended August 3, 2019, and August 4, 2018, respectively. For the trailing twelve months ended August 3, 2019, and August 4, 2018, includes tax effect of \$919 million and \$578 million, respectively, related to EBIT, and \$18 million and \$11 million, respectively, related to operating lease interest.

^(d) The effective tax rate for the trailing twelve months ended August 3, 2019, and August 4, 2018, includes discrete tax benefits of \$36 million and \$343 million, respectively, related to the Tax Act.

^(e) Total short-term and long-term operating lease liabilities included within Accrued and Other Current Liabilities and Noncurrent Operating Lease Liabilities.

^(f) Included in Other Assets and Liabilities.

^(g) Average based on the invested capital at the end of the current period and the invested capital at the end of the comparable prior period.

Analysis of Financial Condition

Liquidity and Capital Resources

Our cash and cash equivalents balance was \$1,656 million, \$1,556 million, and \$1,180 million at August 3, 2019, February 2, 2019, and August 4, 2018, respectively. Our cash and cash equivalents balance includes short-term investments of \$796 million, \$769 million, and \$353 million as of August 3, 2019, February 2, 2019, and August 4, 2018, respectively. Our investment policy is designed to preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place dollar limits on our investments in individual funds or instruments.

Capital Allocation

We follow a disciplined and balanced approach to capital allocation based on the following priorities, ranked in order of importance: first, we fully invest in opportunities to profitably grow our business, create sustainable long-term value, and maintain our current operations and assets; second, we maintain a competitive quarterly dividend and seek to grow it annually; and finally, we return any excess cash to shareholders by repurchasing shares within the limits of our credit rating goals.

Operating Cash Flows

Operating cash flow provided by continuing operations was \$2,810 million for the six months ended August 3, 2019, compared with \$2,723 million for the six months ended August 4, 2018. The operating cash flow increase resulted from higher net earnings during the six months ended August 3, 2019, compared with the same period in the prior year, partially offset by higher cash settlement of accounts payable in 2019 driven by elevated 2018 inventory levels.

Inventory

Inventory was \$9,122 million as of August 3, 2019, compared with \$9,497 million and \$9,112 million at February 2, 2019, and August 4, 2018, respectively. The decrease from February 2, 2019, reflects a reduction from elevated year-end inventory levels.

Dividends

We paid dividends totaling \$328 million (\$0.64 per share) and \$658 million (\$1.28 per share) for the three and six months ended August 3, 2019, respectively, and \$330 million (\$0.62 per share) and \$665 million (\$1.24 per share) for the three and six months ended August 4, 2018, respectively, a per share increase of 3.2 percent. We declared dividends totaling \$341 million (\$0.66 per share) during the second quarter of 2019, a per share increase of 3.1 percent over the \$340 million (\$0.64 per share) of declared dividends during the second quarter of 2018. We have paid dividends every quarter since our 1967 initial public offering, and it is our intent to continue to do so in the future.

Share Repurchase

We returned \$341 million and \$618 million to shareholders through share repurchase during the three and six months ended August 3, 2019. See Part II, Item 2 of this Quarterly Report on Form 10-Q and Note 7 to the Consolidated Financial Statements for more information.

Financing

Our financing strategy is to ensure liquidity and access to capital markets, to maintain a balanced spectrum of debt maturities, and to manage our net exposure to floating interest rate volatility. Within these parameters, we seek to minimize our borrowing costs. Our ability to access the long-term debt and commercial paper markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. As of August 3, 2019, our credit ratings were as follows:

| Credit Ratings | Moody's | Standard and Poor's | Fitch |
|------------------|---------|---------------------|-------|
| Long-term debt | A2 | A | A- |
| Commercial paper | P-1 | A-1 | F1 |

If our credit ratings were lowered, our ability to access the debt markets, our cost of funds, and other terms for new debt issuances could be adversely impacted. Each of the credit rating agencies reviews its rating periodically and there is no guarantee our current credit ratings will remain the same as described above. Fitch raised our commercial paper rating from F2 to F1 during the three months ended August 3, 2019.

In March 2019, we issued \$1.0 billion of debt, and in June 2019, we repaid \$1.0 billion of debt at maturity. Notes 5 and 6 to the Consolidated Financial Statements provide additional information.

We have additional liquidity through a committed \$2.5 billion revolving credit facility obtained through a group of banks. In October 2018, we extended this credit facility by one year to October 2023. No balances were outstanding at any time during 2019 or 2018.

Most of our long-term debt obligations contain covenants related to secured debt levels. In addition to a secured debt level covenant, our credit facility also contains a debt leverage covenant. We are, and expect to remain, in compliance with these covenants. Additionally, as of August 3, 2019, no notes or debentures contained provisions requiring acceleration of payment upon a credit rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a matter of months of each other we experience both (i) a change in control; and (ii) our long-term credit ratings are either reduced and the resulting rating is noninvestment grade, or our long-term credit ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is noninvestment grade.

We believe our sources of liquidity will continue to be adequate to maintain operations, finance anticipated expansion and strategic initiatives, fund debt maturities, pay dividends, and execute purchases under our share repurchase program for the foreseeable future. We continue to anticipate ample access to commercial paper and long-term financing.

Contractual Obligations and Commitments

As of the date of this report, other than the new borrowings discussed in Note 5 to the Consolidated Financial Statements, there were no material changes to our contractual obligations and commitments outside the ordinary course of business since February 2, 2019, as reported in our 2018 Form 10-K.

New Accounting Pronouncements

We do not expect any recently issued accounting pronouncements to have a material effect on our financial statements.

Forward-Looking Statements

This report contains forward-looking statements, which are based on our current assumptions and expectations. These statements are typically accompanied by the words “expect,” “may,” “could,” “believe,” “would,” “might,” “anticipates,” or similar words. The principal forward-looking statements in this report include: our financial performance, statements regarding the adequacy of and costs associated with our sources of liquidity, the funding of debt maturities, the continued execution of our share repurchase program, our expected capital expenditures and new lease commitments, the expected compliance with debt covenants, the expected impact of new accounting pronouncements, our intentions regarding future dividends, the expected return on plan assets, the expected outcome of, and adequacy of our reserves for, claims, litigation and the resolution of tax matters, the expected impact of changes in information technology systems, and changes in our assumptions and expectations.

All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A of our Form 10-K for the fiscal year ended February 2, 2019, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Form 10-K for the fiscal year ended February 2, 2019.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

During the most recently completed fiscal quarter, the following change to our information technology systems materially affected, or is reasonably likely to materially affect, our internal control over financial reporting:

- We are in the process of a broad multi-year migration of many mainframe-based systems and middleware products to a modern platform, including systems and processes supporting inventory and supply chain-related transactions.

During the most recently completed fiscal quarter, no other change in our internal control over financial reporting materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No response is required under Item 103 of Regulation S-K, nor have there been any material developments for any previously reported legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 20, 2016, our Board of Directors authorized a \$5 billion share repurchase program. We began repurchasing shares under this authorization during the fourth quarter of 2016. There is no stated expiration for the share repurchase program. Under the program, we have repurchased 56.4 million shares of common stock through August 3, 2019, at an average price of \$70.46, for a total investment of \$4.0 billion. The table below presents information with respect to Target common stock purchases made during the three months ended August 3, 2019, by Target or any "affiliated purchaser" of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs |
|---|----------------------------------|------------------------------|---|--|
| May 5, 2019 through June 1, 2019 | | | | |
| Open market and privately negotiated purchases | — | \$ — | — | \$ 964,936,694 |
| June 2, 2019 through July 6, 2019 | | | | |
| April 2019 ASR ^(a) | 1,235,450 | 80.21 | 1,235,450 | 1,025,219,743 |
| July 7, 2019 through August 3, 2019 | | | | |
| Open market and privately negotiated purchases ^(b) | 20,000 | 41.13 | 20,000 | 1,024,397,045 |
| Total | 1,255,450 | \$ 79.59 | 1,255,450 | \$ 1,024,397,045 |

^(a) Represents the incremental shares received upon final settlement of the accelerated share repurchase (ASR) agreement initiated in first quarter 2019.

^(b) Represents shares retired through the partial settlement of a prepaid forward contract that was initiated in third quarter 2008.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

| | |
|---------|---|
| (3)A | <u>Amended and Restated Articles of Incorporation (as amended through June 9, 2010)</u> ⁽¹⁾ |
| (3)B | <u>Bylaws (as amended through November 11, 2015)</u> ⁽²⁾ |
| (31)A | <u>Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| (31)B | <u>Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| (32)A | <u>Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| (32)B | <u>Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

⁽¹⁾ Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed June 10, 2010.

⁽²⁾ Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed November 12, 2015.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TARGET CORPORATION

Dated: August 30, 2019

By: /s/ Cathy R. Smith

Cathy R. Smith
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

/s/ Robert M. Harrison

Robert M. Harrison
Senior Vice President, Chief Accounting Officer
and Controller

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

Certifications

I, Brian C. Cornell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Target Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 30, 2019

/s/ Brian C. Cornell

Brian C. Cornell

Chairman and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

Certifications

I, Cathy R. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Target Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 30, 2019

/s/ Cathy R. Smith

Cathy R. Smith

Executive Vice President and Chief Financial Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Target Corporation, a Minnesota corporation (“the Company”), for the quarter ended August 3, 2019, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to her knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 30, 2019

/s/ Cathy R. Smith

Cathy R. Smith

Executive Vice President and Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Target Corporation, a Minnesota corporation (“the Company”), for the quarter ended August 3, 2019, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 30, 2019

/s/ Brian C. Cornell

Brian C. Cornell

Chairman and Chief Executive Officer