Cathy Smith
Executive Vice President and Chief Financial Officer
Focusing on the right priorities
Skating to where the puck is going...
Strong Operations
Well-Located Stores
Fiercely Loyal Guests
Strong Balance Sheet
Robust Cash Flow
Best Team in Retail
Additional Investments

Capital Operating Margin
Investment Focus

• Store remodels
• New technology
• New supply chain model
• Owned and exclusive brands
• Pricing and promotions
• Training, hours and wages
America’s easiest place to shop

delivery from store

free 2-day ship

drive up

order pickup

same day delivery

Shopped by SHIPT
Multi-Year Plan

<table>
<thead>
<tr>
<th>Investment Year</th>
<th>Transition Year</th>
<th>Positioned for Profitable Growth</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
<td>2019+</td>
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Age is just a number
Comparable GAAP EPS and reconciliations of GAAP to Adjusted EPS can be found in the “Summary Financials” section of our investor relations website.
2018 Business Performance

- Gross margin rate down ~40 basis points
  - Merchandise mix
Full-Year Comp Sales Growth

- Home, Apparel & Beauty: ~5%
- Baby & Toys: ~15%
2018 Business Performance

- Gross margin rate down ~40 basis points
  - Merchandise mix
  - Pricing/promotions and digital fulfillment
2018 Business Performance

• Gross margin rate down ~40 basis points
• SG&A expense rate up ~10 basis points
  • Investments in hours and training
  • Wage growth
  • Expense discipline
  • Sales leverage
2018 Business Performance

- Gross margin rate down ~40 basis points
- SG&A expense rate up ~10 basis points
- D&A rate down ~10 basis points
2018 Business Performance

- Gross margin rate down ~40 basis points
- SG&A expense rate up ~10 basis points
- D&A rate down ~10 basis points
- Interest expense down ~$200 million
2018 Business Performance

• Gross margin rate down ~40 basis points
• SG&A expense rate up ~10 basis points
• D&A rate down ~10 basis points
• Interest expense down ~$200 million
• Lower federal tax rate
2018 Business Performance

- Gross margin rate down ~40 basis points
- SG&A expense rate up ~10 basis points
- D&A rate down ~10 basis points
- Interest expense down ~$200 million
- Lower federal tax rate
- Lower share count
Invest in the Business
Support the Dividend
Return Excess Cash
Capital Deployment

Nearly $13B of cash generated in 2017 and 2018

$6B CAPEX
$2.7B Dividends
$3.2B Share repurchase
>$500M Acquisitions
~$1B Long-term net debt reduction
$900M Inventory investment in 2018
After-Tax ROIC

- 2016: 14.8%
- 2017: 15.4%
- 2018: 14.7%
After-Tax ROIC

- 2016: 14.8%
- 2017: 13.6% (15.4% increase)
- 2018: 14.6%

Legend:
- without discrete tax benefits
- --- as reported
$1.2B in profitable sales
53rd week in 2017
Topline Growth Potential

• At least as fast as the addressable market (Nominal GDP)
  • Low-single digits or better in a typical year
  • Faster growth from unique opportunities
Invest in stores
5.5% operating income margin rate in 2018
Operating Income Margin Rate

Tailwinds
• Strong sales mix
• Cost-of-goods savings
• Lower unit fulfillment costs
• Labor savings
• Expense discipline
• Leverage from strong topline

Headwinds
• Digital growth
• Wage increases
~300 remodels a year in 2019/2020
D&A Leverage
~10 bps per year
Relative stability in gross margin and SG&A
Operating Income Leverage
~10 bps per year
Long-Term Effective Tax Rate
23% to 24%
Capital Deployment Expectations

• Maintain CAPEX at ~$3.5 billion in 2019 and 2020
• Low-single digit growth in dividend per share
• Return excess cash within the limits of our middle-A credit ratings
Adjusted EPS

$5.15  $5.45
Adjusted EPS

$5.15

$5.39

2018 Adjusted EPS

$5.45
Variances from 2018 Expectations

• Higher sales (Toys and Baby market share)
• Lower gross margin rate
• Lower D&A expense
Strong Growth
Market Share Gains
EPS Goals
We have a lot more to do