**Speaker 1**
0s

Welcome to the Target Corporation Third Quarter Earnings Release Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will invite you to participate in a question-and-answer session. At the close of prepared remarks, we will open the queue for the Q&A session. At that time, if you have a question, you will need to press star one on your telephone. As a reminder, this conference is being recorded Wednesday, November 19th, 2025. I would now like to turn the conference over to Mr. John Holbert, Vice President, Investor Relations. Please go ahead, sir.

**Speaker 4**
35s

Good morning, everyone, and thank you for joining us on our Third Quarter 2025 Earnings Conference Call. On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Michael Fiddelke, Chief Operating Officer; Rick Gomez, Chief Commercial Officer; and Jim Lee, Chief Financial Officer. In a few minutes, Brian, Michael, Rick, and Jim will provide their insights on our third quarter performance and outlook for the rest of the year. Following their remarks, we'll open the phone lines for a question-and-answer session. This morning, we're joined on this conference call by investors and others who are listening to our comments via webcast. Following the call, Jim and I will be available to answer your follow-up questions. Finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, including those described in this morning's earnings press release and in our most recently filed 10-K. Also, in these remarks, we refer to non-GAAP financial measures, including adjusted earnings per share. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, which is posted on our investor relations website. With that, I'll turn it over to Brian to kick things off.

**Speaker 4**
1m 42s

Brian?

**Speaker 3**
1m 44s

Thanks, John, and good morning, everyone. This is my final earnings call as Target CEO, and I plan to keep my comments brief this morning, but I wanted to take a moment to thank all of you for your ongoing engagement and support over the last 11 years. It's been the highlight of my career to lead this great company, and our business has undergone many important changes since I arrived in 2014. We entered into an innovative partnership with CVS to run our pharmacy business. We changed our operating model in food and beverage, paving the way for explosive growth in that part of the business. We invested in our product design, development, and sourcing capabilities, and launched several new billion-dollar-owned brands. We pioneered the stores as hubs model for digital fulfillment, remodeled well over 1,000 of our existing stores, and added nearly 200 net new locations in the US. All told, this year's top line is expected to be well over $30 billion higher than the year I arrived. In that 2014 fiscal year, GAAP and adjusted EPS both came in around $4 a share, and the upper end of this year's expected range for adjusted EPS is double that number.

Speaker 3
3m 0s

I am proud that our team could deliver this top and bottom line growth while building a solid foundation of operating capabilities, including one of the nation's largest loyalty programs in Target Circle and a rapidly growing retail media business in Rondelle. That said, our business has not been performing up to its potential over the last few years, and I am singularly focused on supporting Michael and the entire leadership team as they make changes to the way we work, enhancing our merchandising authority, our retail experience, and investing in technology to accelerate our business. In the call today, you'll hear how the team is working quickly to get the company back to profitable growth. While we're not there yet, I'm confident we're on the right path, and Michael is the right person to lead the next chapter of Target's growth. With that, I want to thank all of you for your participation today and for your thoughtful engagement over the years. Finally, I want to thank the entire Target team. It has been a privilege to work with you in support of this great brand. Now, I'll turn the call and today's Q&A over to Michael.

Speaker 2
4m 13s

Thanks, Brian, and good morning, everyone. We have high but achievable aspirations for Target's future, and we're acting with urgency to make the changes and investments to position Target for sustainable and profitable growth over time. While our third quarter performance came in as expected, we're far from satisfied with our current results, and we won't be satisfied until we're operating at our full potential. To get there, we've set three distinct but highly interrelated priorities for our team. First, we must solidify our design-led merchandising authority, leading with incredible product in a way that is distinctly Target. Second, as a retailer that believes that the shopping experience is every bit as important as the products we sell, we need to offer a more consistently elevated experience across our stores and digital platforms. Third, we need to more fully use technology to improve our speed, guest experience, and efficiency throughout the business. Together, these priorities are in service of one goal: getting back to sustainable growth as quickly as possible. They guide every decision we make, and I want to spend a few minutes to help clarify what these priorities are, why each matters, and share some of our progress to date.

Speaker 2
5m 27s

Before I expand on these priorities, I want to pause and acknowledge our recent re-structuring at headquarters, in which we eliminated approximately 1,800 roles, or about 8% of our headquarters' footprint, a difficult but necessary step forward. While Jim will walk through some financial aspects of this decision, I want to make it clear that this move was not about cutting costs. Instead, by removing layers that have added complexity to the way we work, we're aiming to work with greater agility, making it clear who owns decisions and empowering our team to operate with greater authority and speed in support of our strategy. Let's discuss how we're making progress in solidifying our merchandising authority and elevating our shopping experience. You'll also see the critical role that enhanced technology is playing in support of both, helping us progress quickly, efficiently, and in industry-leading ways. We are a design-led company, and that starts with our authority in merchandising, our ability to build a unique assortment of the right, stylish, on-trend products at incredible value that's so central to who we are and key to our differentiation and future growth. At Target, we believe that offering an assortment that's distinctly ours is essential to maintaining our merchandising authority with our guests.

Speaker 2
6m 43s

Not every category plays the same role towards these efforts, but together, they create an assortment and experience that feels unmistakably Target. A great example is the transformation of our hardlines business into FUN 101, an evolution in bringing greater cultural relevance, style authority, and trend-right energy to the assortment, reinforcing what makes shopping at Target so special. While we have much more change in FUN 101 to come, it builds our confidence to see the categories that have seen the greatest change driving some of the strongest sales performance already. Rick will have more details to share later. Within each category, merchandising authority means staying incredibly close to our guests by knowing what they'll want next, reacting to, predicting, and even setting new trends. Tech will play a critical role in helping us get there. We're enhancing our capabilities by equipping our teams with new tools that provide them with AI-enabled consumer insights at their fingertips. Our merchants now have real-time access to advanced data, from what is currently trending on social media to which products and styles are resonating with consumers at Target and across the industry today, to what future trends our guests are most likely to care about, helping our team forecast needs, anticipate trends, and buy both smarter and faster.

Speaker 2
8m 7s

New tools also include our recently developed Target Trend Brain, our new internal creative platform, which uses GenAI technology to help our teams identify and react to emerging trends faster and predict future trends. By leveraging AI to capture color, material, style, and product details, and applying consumer research and our brand principles, we can deliver unique and on-trend products to our guests faster than ever before. To further enhance our speed to market, we've also created synthetic audiences, AI-driven models that simulate real consumer populations to preview how different groups could respond to campaigns and products before they ever launch. This allows our marketing and design teams to test, learn, and refine products, promotions, and messaging with incredible speed and efficiency. You will see us continue to accelerate our use of technology. It is our talented team that brings this work to life. We are investing intentionally in our team and how we approach our work. We're redefining roles throughout the cross-functional team that supports our assortment planning and buying decisions, what we call our merchant roundtable, to better equip our teams to make bolder decisions even faster. I'm also excited to share we welcome new leaders to the team in areas like our home business to bring new ways of thinking and accelerate change in this signature category.

Speaker 2
9m 32s

These steps forward are examples of how we're solidifying our design-led merchandising authority by using people, process, and technology to drive greater levels of newness and differentiation across our entire assortment, more quickly reacting to emerging trends and amplifying these trends faster than ever before. Let's turn now to our team's efforts to elevate the guest shopping experience, both in stores and digital. A great guest experience means a lot of things, but it starts with a warm, friendly, and helpful team. In stores, we're making changes to give our team members more time to focus on what matters most, spending time helping our guests. Through enhanced digital tools, we're reducing time devoted to backroom tasks through more efficient truck unloading and stocking. Every hour we save is being reinvested to allow more guest interaction with a focus on friendliness and service that makes Target Target. An elevated shopping experience also means consistently finding the products you want and need every time you shop. This holiday season, we're using our expertise and deep consumer knowledge in a new GenAI-powered gift finder available on our website and our app, allowing guests to ask questions in the app and help them find the perfect gift this holiday season.

Speaker 2
10m 49s

By simply asking something as generic as, "What is a good present for my mother-in-law?" to something more specific, like, "I have a five-year-old son that loves dinosaurs, what gifts are available for under $20?" our app will provide recommendations or ask clarifying questions to quickly and easily help guests find the right present for every person on their holiday shopping list. For guests shopping in our stores and online, we're also investing resources to ensure we have the right product in the right place at the right time all year long. This includes modernizing the technology that forecasts, orders, and positions our inventory, using machine learning to optimize flow from supplier to shelf. It's helping us move inventory more efficiently, improve reliability for everyday frequently purchased items, and further improve in stocks. We've coupled these tech enhancements with process improvements, some great root cause problem-solving by the team, and clearer measurements that show where we have the most room to improve. All in, we've seen meaningful progress on this front. In fact, this past quarter, the on-shelf availability of our 5,000 top items, the ones for which being in stock is most important to our guests and which represent 30% of our total unit sales, saw a more than 150 basis point improvement compared to this time last year.

Speaker 2
12m 14s

Even with this meaningful progress, I want to emphasize that we have much more room to improve, and we're not slowing down. An elevated store experience also means meeting our guests when, where, and how they want to shop. To do this, we're reconfiguring the role each of our stores plays within a market to optimize fulfillment speed and capabilities, and in the process, also better supporting the in-store shopping experience. Our pilot in the Chicago market has demonstrated the effectiveness of new operating models that govern each location's mix of in-store and digital fulfillment, helping to improve the guest experience and operational performance at each store at the same time. For those stores with high foot traffic volume, we're reducing their mix of brown box fulfillment, allowing those teams to spend more time interacting with in-store guests. For lower volume stores in the same market with big back rooms that are perfectly suited to ship product, we're pushing more digital fulfillment volume their way. Of course, more labor hours to support this work, creating economies of scale and a more optimized workload for each node within a market. With the changes we've made, we're getting guests the products they want faster than ever while reducing average fulfillment costs.

Speaker 2
13m 28s

As a reminder, we already reach around 80% of the U.S. population with same-day delivery powered by Target Circle 360, where sales grew more than 35% again this past quarter. Around 99% of the U.S. population is already eligible for two-day shipping. Now, with our evolving market fulfillment strategy that includes expanding these learnings to an additional 35 markets, more than half of the U.S. is eligible for next-day shipping, and we expect to meaningfully expand that reach in the coming year. Elevating experience also means staying ahead of new ways our guests want to shop. We're leading in the next wave of digital engagement by partnering with the world's biggest GenAI platforms through an initiative we call conversational curation. Building on the apps for ChatGPT experience previewed in early October, we're curating the shopping experience directly from the guests' own conversation. Guests tell us what they want or even what they're trying to solve for, and OpenAI will offer personalized recommendations. Through this partnership, we expect to be one of the first retailers on OpenAI platforms to offer the purchase of multiple items in a single transaction, offer fresh food products on the platform, and the ability to choose drive-up and pickup fulfillment options in addition to the conventional shipping options offered by others.

Speaker 2
14m 53s

Finally, I'd like to touch on important investments that will drive both merchandising authority and an elevated experience. Our investments in new stores, store remodels, and chain-wide category changes aimed at providing greater inspiration and joy for our guests every time they shop. Our new, larger-format stores are outpacing our initial sales expectations and continue to be a strong source of growth. Given current real estate opportunities, we expect to continue opening these bigger boxes in more and more markets across the U.S. Additionally, we're formulating plans for next year that will bring greater changes to key floor pads throughout the store, which will accelerate both our merchandising authority and our experience. To support this change, we'll be increasing our CapEx plans for next fiscal year, spending about $5 billion, about $1 billion more than this year, to bring the latest and greatest of Target to new and existing markets. Rick and Jim will have more to share on this in a moment. Now, before I get ready to pass things over to Rick, I want to thank the Target team. You power our progress, and it is together as a team that we'll write Target's next chapter. While we're not yet where we want to be, we're making change to lay the foundation for a stronger, faster, and more innovative Target, one that's grounded in our purpose, fueled by our team, and focused on growth.

Speaker 2
16m 18s

I'm proud of the progress we've made and confident in the opportunities ahead. To those of you listening this morning, if you leave having heard nothing else, I'd leave you with the following thoughts. We are not satisfied with our current results and are relentless in our pursuit of returning to growth. Our three priorities around merchandising, experience, and technology have us on the right path, and we know what needs to be done and are actively making progress towards being the best version of ourselves for our guests, our team, and our stakeholders. With that, I'll turn the call over to Rick to share more about our third-quarter performance and all we have planned for this holiday season. Thanks, Michael, and good morning, everyone. Our third-quarter results underscore that we still have work to do, but they also show us that the actions we're taking are the right ones for our guests and for our business. We're focused on improving performance, particularly in discretionary categories, listening closely to our guests, and moving with greater agility to bring them the newness and affordability they expect from Target. In Q3, results were in line with expectations and similar to second-quarter performance, with the exception of Q2 benefiting from the Nintendo Switch 2 launch.

Speaker 2
17m 30s

Q3 comp sales were down 2.7%, reflecting continued softness in discretionary categories like home and apparel. Partially offset by growth in food and beverage and Fun 101, digital comparable sales grew 2.4%, fueled by more than 35% growth in same-day delivery, powered by Target Circle 360 and continued growth in drive-up. We saw the strongest sales around seasonal moments like back to school, back to college, and Halloween, highlighting once again the importance of these holidays to our business. Across categories, one theme is clear. Our guests continue to respond to newness and style forward assortments. Fun 101 delivered another quarter of growth, led by a nearly 10% comp in toys and double-digit growth in music, video games, and our expanded selection of sporting equipment. All categories where we've invested in unique to Target assortments that are clearly resonating. Food and beverage also delivered another quarter of comp growth, with notable strength in beverages, which were up nearly 7% in Q3, as guests leaned into our trend-forward health and wellness assortment. From prebiotic sodas to better-for-you energy drinks, we also saw strength in candy categories, particularly as the Halloween holiday approached. While apparel comps were down 5%, we delivered meaningful growth in denim and sleepwear categories, driven by style-forward newness that helped to offset softness across the portfolio.

Speaker 2
18m 56s

This tells us that while there is still plenty of work to do, where we have made our biggest bets in terms of on-trend, design-led newness, consumers are reacting positively, giving us confidence in our approach and the path ahead. Turning to the consumer, many of the themes remain largely consistent with what we shared in prior quarters. Guests are choiceful, stretching budgets and prioritizing value. They're spending where it matters most, especially in food, essentials, and beauty, while looking for trend-right deals in discretionary categories. They want quality and price to coexist, something we do particularly well through our balance of must-have national brands, our exclusive owned brand portfolio, and our curation of emerging brands. As part of our work to solidify our merchandising authority, we will continue to elevate our assortment to lead with trend while always considering affordability and value. As we approach the holidays, we know consumers remain cautious. Sentiment is at a three-year low amid concerns about jobs, affordability, and tariffs. Yet they remain emotionally motivated. They want to celebrate with loved ones without overspending. Our job is to help them do just that. Given our focus on affordability, we recently lowered prices on thousands of everyday food and essential items to help families further manage their budgets.

Speaker 2
20m 16s

For the next major holiday around the corner, our Thanksgiving meal deal this year is one of the most affordable yet, feeding a family of four for less than $20, with Good & Gather turkey at just 79 cents per pound, as well as potatoes, stuffing, and other seasonal sides for less than $5. While we are, of course, standing tall for the traditional Thanksgiving fare, guests are also embracing new food trends like Good & Gather seasonal empanadas, gourmet host gifts from Marks and Spencer, Stonewall Kitchen, Sugarfina, and Heart in Hand with Magnolia Table, and new to Target brands like Little Spoon, Everyday Dose, and Protein Pop. As a percentage of our total food and beverage sales, we are selling twice the volume of new products compared to the industry, a sign that our trend bets are paying off. We're also accelerating newness in women's apparel, leaning into luxe fabrics and trending athleisure at affordable prices. Inspired by our sourcing trip to the Swiss Alps, our latest cashmere-like sweaters start at just $30 and deliver the on-trend, casual yet chic après-ski look. For athleisure fans, JoyLab is launching new patterns and fabrications in mid-December, earlier than ever this year, perfect for gifting or those New Year fitness goals.

Speaker 2
21m 32s

In holiday decor, we're offering upscale and festive design at unbeatable prices. From contemporary collections to nostalgic Christmas classics, we have styles for every home. Ornaments start at $1, $3, and $5 price points, with holiday throws at $10 and wreaths and faux greenery at $12, bringing incredible design and quality within reach. Once the tree is trimmed, it's time to think about what goes under it. As I've shared before, trading cards have been a huge trend that we have been leaning into, and this holiday season, we will be offering new product drops nearly every week, including Pokémon, Magic: The Gathering, NFL, MLB, and WNBA cards. This includes highly anticipated exclusives already hitting shelves and continuing to be released throughout December as well. This year, we've also expanded our assortment of affordable and on-trend toys, including thousands under $20, with many starting at just $5. As the number one market share player for Lego, we are partnering with this iconic brand to offer exclusive to Target sets starting at just $10. For Barbie fans of all ages, we're offering two exclusive Barbie collaborations with Joanna Gaines, a collectible doll and her perfectly designed townhouse to live in. All in, we are introducing 20,000 new items into this year's holiday assortment, twice as many as last year, with over half exclusive to Target.

Speaker 2
22m 58s

Before turning it over to Jim, I want to share how Michael's new enterprise priorities are taking shape across our commercial organization. In partnership with the Enterprise Acceleration Office, we've been modernizing how our cross-functional teams support all buying decisions at Target, what we refer to as our merchant roundtable. To clarify roles, streamline accountability, and empower teams to make bold, data-driven decisions, allowing us to move faster and infuse newness into assortments more frequently. Not all newness is created equal. It isn't just about offering new products for the sake of newness. It's about leaning into the emerging trends and culturally relevant moments. When we do, this is when we see the strongest reaction from our guests. For the perfect example, look no further than our Stranger Things 5 assortment. We have the largest assortment of exclusive products in retail in the U.S., along with throwback marketing campaigns that transport guests back to the 1980s nostalgia. Plus, we're dropping new items into the assortment every week to align with the new episode releases. This is yet another example of the incredible work we are doing to reimagine our hardlines assortment into FUN 101, a year-round celebration of culture, trend, and style, served up in an only-at-Target way.

Speaker 2
24m 14s

Next year, we're planning to take these learnings and make bold investments to transform the in-store shopping experience and assortment. In fact, we already have plans to introduce more changes to our stores than we have in any year in the past decade. We will have far more details to share at our financial community meeting this spring. With that, I'll turn the call over to Jim to walk through our third-quarter financial results and updated expectations for the balance of the year. Thanks, Rick. Our financial results in Q3 were in line with our expectations as our team continues to focus on what we can control and manage the business with discipline despite continued softness on the top line, volatility in weekly and monthly trends, and uncertainty in the external environment. Third-quarter net sales were 1.5% lower than a year ago, slightly better than our year-to-date performance, but about 60 basis points softer than in Q2. Category sales trends were relatively consistent between Q2 and Q3, with the exception of hardlines, where we saw continued growth but at a slower pace following an outsized boost from the launch of the Nintendo Switch 2 in the second quarter. Across our selling channels, comp sales in our stores were down about 4%, while comparable digital sales grew 2.4% on top of nearly 11% a year ago.

Speaker 2
25m 30s

Within our first-party digital sales, we saw mid-single-digit growth in our same-day services led by more than 35% growth in same-day delivery. Beyond our first-party digital platform, we saw a significant step up to nearly 50% growth in GMV of our Target Plus marketplace and mid-teens growth in Roundel ad sales, demonstrating the breadth and growing relevance of our digital ecosystem. Top-line results during the quarter were quite volatile, with net sales close to flat in August and October and down about 4% in September. This pattern reinforces many of the consumer themes we've been highlighting for some time, as guests shopped around back to school and back to college in August and around Halloween in October, but pulled back in September in between those key seasons. In addition, September apparel sales were hampered by unusually warm weather across the country, while October benefited from the response to our most recent Target Circle week as consumers continued to focus on value. On the gross margin line, our Q3 rate of 28.2% was about 10 basis points lower than last year. Among the drivers, we saw about a percentage point of pressure in merchandising, reflecting the impact of higher markdowns. This pressure was offset by about 70 basis points of favorability from lower inventory shrink versus last year.

Speaker 2
26m 45s

In addition, we saw about 20 basis points of favorability from supply chain and digital fulfillment, as the benefit of higher productivity and the lapping of last year's supply chain challenges was partially offset by the deleveraging impact of lower sales. Regarding our outlook for inventory shrink, consistent with our prior commentary, we expect that shrink improvements will account for approximately 80-90 basis points of gross margin rate favorability for the full year. This would bring it fully back down to pre-pandemic levels, marking a dramatic turnaround over the last two years. One other note, our Q3 ending inventory was about 2% lower than a year ago. This is in line with recent trends in our Q4 sales outlook and reflects growth in our frequency businesses that was more than offset by lower levels in our discretionary businesses. Moving back to our third-quarter P&L, our SG&A expense rate of 21.9% was about 60 basis points higher than a year ago. However, this rate reflected about 60 basis points of impact from one-time business transformation costs. Excluding these costs, our third-quarter SG&A expense rate was approximately flat to last year. On the bottom line, our business delivered third-quarter GAAP EPS of $1.51 compared with $1.85 a year ago.

Speaker 2
27m 58s

Adjusted EPS, which excluded business transformation costs, was $1.78 in the third quarter, about 4% lower than a year ago. While this is far short of where we aspire to be over time, it is solid profit performance in a quarter where our top line was down more than 1% and reflects stronger relative performance versus the first half of the year, consistent with our prior commentary. I will turn now to capital deployment and reiterate our priorities, which we have consistently followed for decades. First, we look to fully invest in our business in projects that meet our strategic and financial criteria. Second, we look to support the dividend and build on our record of more than 50 years of consecutive annual increases. Finally, we look to deploy any excess cash beyond those first two uses to repurchase shares over time within the limits of our middle-aged credit ratings. Regarding our first priority, we've invested about $2.8 billion in capital expenditures so far this year and continue to expect full-year CapEx of around $4 billion. Regarding the second priority, we paid $518 million in dividends in Q3, which was $2 million higher than last year, as a 1.8% increase in the per-share dividend was mostly offset by a lower average share count.

Speaker 2
29m 11s

Regarding the last priority, we deployed just over $150 million to repurchase our shares in the third quarter following a pause in Q2. While we ended the quarter with a healthy cash position and expect to have continued capacity within the limits of our middle-aged ratings, we'll continue to exercise caution in our repurchase program in the face of continued uncertainty in the external environment. Now I want to turn to our outlook for the fourth quarter and the full year. While our Q3 results were consistent with our expectations, we've continued to see a high degree of volatility in our business. In addition, we're mindful of the challenges facing consumers as exemplified by recent declines in consumer confidence. As such, while our top-line expectations for Q4 are in line with our prior guidance and recent performance, we've narrowed our full-year EPS ranges and moved our adjusted EPS range to the bottom half of the prior range. With that as context, on the top line for the fourth quarter, we're continuing to expect a low single-digit decline in our comparable sales, in line with our year-to-date performance. On the adjusted EPS line, our updated range is from $7 to $8 for the full year.

**Speaker 2**
30m 18s

The expected range for GAAP EPS is about 70 cents higher than for adjusted EPS, reflecting the benefit of the first-quarter litigation settlement partially offset by business transformation costs. Against the backdrop of a very difficult environment, I am proud of the team's hard work this year to navigate a very high level of complexity, including their work to mitigate the impact of tariffs and navigate challenging consumer conditions. Over the past several months, we've also been hard at work to drive prioritization and outline key investments to return Target back to sustainable growth. Looking ahead to next year, we expect to ramp up our capital spending meaningfully in support of our store experience and remodel program, a step up in technology and digital fulfillment capabilities, and investment in new stores. Our current plan envisions 2026 CapEx dollars increasing by approximately 25% or $1 billion versus 2025. In addition, we are planning to leverage a continuous pipeline of productivity initiatives and approximately $180 million of expected annualized savings from our recent business transformation efforts to invest in key areas in support of our three strategic priorities. We will share more details on our plans for 2026 and beyond at our financial community meeting in March.

**Speaker 2**
31m 34s

While we know there's much more work to do, I'm confident that we are rapidly moving in the right direction and positioning our business to get back to sustainable, profitable growth in the years ahead. With that, I'll turn the call back over to Michael. Thanks, Jim. Before Rick, Jim, and I take your questions, I want to emphasize some of what you've heard from us today and to underscore where we're headed as a team. There's no question that this is a period of transformation for Target. The environment around us continues to evolve, whether it's shifting consumer demand, changing competitor dynamics, or broader macroeconomic pressures. Let me be clear, we are not waiting for conditions to improve. We are driving the change ourselves right now. We are taking bold, decisive steps to reshape how we work and reignite growth with urgency, focus, and confidence in who we are and who we can be. We know what makes Target special: an unmatched merchandising authority and the ability to create joy through an elevated and inspiring guest experience, all enabled by the power of technology to amplify both speed and connection across every part of our business. These are more than ideas on a page.

**Speaker 2**
32m 45s

They are the pillars of our strategy, shaping every decision we make, and they are coming to life right now across the company. We're hard at work to simplify how we work to make faster, smarter decisions. We're laser-focused on strengthening our foundation in our supply chain, our stores, our digital experience, and our technology capabilities. We're relentlessly striving toward greater authority in merchandising by combining data-driven insight with a design leadership and creative spark that makes Target Target. Together, these actions are paving the way for what comes next: a return to sustainable, profitable growth. While many out there have questions about where we'll go next, we are confident we're on the right path. That's because we're building from a strong foundation, a brand that guests love, a culture that's resilient, and a team that's united behind a shared mission to help all families discover the joy of everyday life. As we look ahead, we're not just talking about getting back to growth. We're talking about building a stronger, more innovative Target that's ready to lead in the next era of retail, one that moves faster, connects deeper, and stands taller in the hearts and minds of our guests.

Speaker 2
33m 58s

To our investors, partners, and the financial community, thank you for your continued engagement. If you're frustrated with our recent performance, we are too, and our entire team is working incredibly hard to return to growth and live up to our full potential. Finally, in the spirit of thinking and working differently, I'm excited to share that this year's financial community meeting will take place right here in Minneapolis on March 3rd. It will be a peek behind the curtain to help bring to life what we've talked about today in a more tangible way, providing a firsthand look at how we're evolving our assortment and technology, all in service of returning to growth. We look forward to seeing you all in Minneapolis this spring, and we'll be sending out more information very soon. We will now move to Q&A. Rick, Jim, and I will be happy to take your questions. Thank you. We will now begin the question and answer session. To ask a question, please press star one. To withdraw your question, please press star two. Our first question comes from Simeon Gutman with Morgan Stanley. Your line is open. Good morning, everyone. I'm Brian. Best of luck.

Speaker 2
35m 9s

My question, Michael, for you, I think in 2016 or 2017, there was a reset of margin during a prior investment phase that helped reposition Target for the next several years. At this stage, I guess, can we rule that out? How have you thought about taking maybe a deeper investment in, I guess, margin in order to reinvest? Or should we now assume that this is the plan, it goes forward, and there does not need to be one? Thanks. Yeah, thanks for the question, Simeon. We have got a pretty big Q4 holiday season that we will get through before we unpack the specifics for next year. What I can tell you is we are committed to making the right investments to get the outcomes we want when it comes to leading with merchandising authority and elevating the experience. We also have a lot from which to draw on there. The team's doing a wonderful job of finding efficiency within the business and changing some of how we work to reinvest. I mean, an example of that is some of what we found in elevating the store experience. We've taken a lot from our fulfillment market tests in Chicago. As a reminder, that's about changing kind of how we organize stores against the work to be done.

Speaker 2
36m 25s

We've found that making some stores brown box shipping specialists because they've got the capacity, they've got the big back room, they might be a little lower volume in general, let them ship that brown box product so that we can free up our busiest in-store guest experiences to focus on serving that in-store guest. Changes like that, we've seen good results in. We're rolling out some of the learnings from that test to 35 more markets here before the year is out. That is the type of change we believe can fuel the step up in experience that we want. We are excited about doing the work to get better outcomes when it comes to leading with merchandising authority and elevating the guest experience. We feel like we're on the right path. The other thing I might add is you heard us describe our capital investments for next year. That is putting capital to work in direct support to the priorities that we've laid out. Like we always have, we invest capital where we see strong return. We are excited to make the investments in technology, supply chain, but especially store experience next year. More remodels, a strong new store pipeline, more change to the broader store.

Speaker 2
37m 42s

I think that's an example of us seeing the opportunity to invest to get growth and leaning into it. The quick follow-up, and you partially addressed it, I wanted to ask about the gaps and capabilities. You mentioned the different focuses, merchandising experience. What are the most urgent gaps and capabilities? And then what are you most excited about, meaning things that can get addressed in the near term? Yeah, the things that I'm most excited about are some of the places where we're seeing momentum already. Take, for example, the work that we're doing in FUN 101. That's a perfect representation of us bringing real focus strategy to the categories that we used to call hardlines to say, "What categories are what we do, are the things that we do uniquely well, best positioned? How do we bring style and culture and design leadership to those categories? We have made more change in those categories, and we see response in those categories. It is good to see categories like toys running an almost 10% increase in Q3. It is good to see the places where we have applied focus moving in the right direction. I think the same is true on experience.

Speaker 2
38m 57s

The work we are doing to create a consistently elevated experience, we like the trajectory there. It starts with the basics, being in stock as part of a great guest experience. We are seeing real, meaningful progress from the team's incredible work to move the needle in the right direction there. While on that front, we are not yet satisfied, we are not yet where we want to be, we like the direction of travel a lot. We will continue to do the work and apply the focus to get improvement in the direction that we want there. Rick, I do not know if you would want to add anything on the product side for some of the places where we have got change and where we are seeing a strong guest response. Yeah, I mean, I can, how about this? I will talk a little bit about some of the capabilities that were the question addressed about which capabilities do we want to are a priority for us to evolve. I want to highlight Merchant Roundtable evolution because it is so important to having those right products that are going to deliver the growth. It is a cross-functional team that we have had in place. If you think about the decisions that we made a couple of weeks ago to reduce the footprint in HQ, a big part of that was around simplifying the organization so we could make decisions faster.

Speaker 2
40m 16s

The next step in that is to outline how we're going to work differently, clarify roles and responsibilities, clarify decision-making. That's the work the team is doing now. What I'm really excited about is then adding in the automation and the technology so the team can spend less time doing the analysis and spend more time being creative, coming up with those new ideas that are going to meet consumer needs and fuel growth like what we're doing in FUN 101. To build on Rick's last point there, I think the role that technology plays, the technology will play, is going to be incredibly important across the enterprise, but a huge shout-out specifically to the pace at which Pratt and team are moving. I like the acceleration of the path forward in technology. I think you can see that in some of the AI examples that we shared today, but you can also see that in some of the core foundation basics that we know we have work to do to make sure our teams have all the tools at their fingertips to build the right assortment, segment that assortment, use technology more powerfully to automate how product moves through our supply chain.

Speaker 2
41m 29s

That continues to be a key area of focus for us. But the urgency with which we're moving that work along gives me a lot of confidence. Okay. Thanks. Have a great holiday. Thank you. Our next question comes from Corey Tarlow with Jefferies. Your line is open. Great. Thanks. Good morning. And I wanted to ask on the level of investment that you're stepping up in the business in terms of the $5 billion for next year in CapEx. How do you think about the key levels or the key areas in which you will be investing? And then how do you think about whether or not that's the right level or if more may be needed to improve results to a greater magnitude across the business? Yeah, great question, Corey. And I think about it in two ways. And this is a conversation that Jim and I have regularly with input across the team, obviously. But it's two things. One is it starts with a focus strategy. Investments need to follow the path that we think drives the most growth for Target, and that starts with clarity on the strategy. The second is we chase returns. The places where we're excited to step up investment are places where we expect really strong returns.

Speaker 2
42m 56s

That starts with investments in our stores, and those come in a couple of forms. You've heard us talk about the strength of our new store pipeline. That pipeline continues to be as strong as ever. It's been just a delight to watch the new store openings this year, especially those bigger boxes that continue to outperform our expectations. There is nothing more fun than walking a brand newly opened store in a market that maybe did not have a Target or did not have a Target close to that neighborhood and to see the response in the community when we open a store. That response is great on the faces and voices of those guests. It is also great in terms of the incremental sales it provides and the high returns we see in those new stores. The second place where you will see us continue to lean in is in store remodels and refreshing the existing fleet of stores. While we have been talking about that for several years, we have been hard at work, as Brian even touched on in his opening remarks of remodeling the chain. That work is not yet finished. We want to make sure that we're investing in some of the stores that when we bring our latest and greatest store experience, we see a reliable, strong response from guests.

Speaker 2
44m 14s

We continue to see strong sales lifts that justify the investment in those remodels. For the stores that haven't yet seen a remodel, we think it's imperative that we bring our latest and greatest thinking. That's a direct investment in the store experience itself, back to the strategy, and the merchandising authority. When we do a remodel, we reallocate the space up to our latest and greatest thinking by strategy. That helps the merchandising drive some of that sales lift. Importantly, technology will continue to be an area of focus for investment. We know the power of technology to help the humans. The humans that we focus on most there are obviously our guests and our team. Wherever we can lean in and use technology, it generates returns when we make things more delightful for our guests and the way technology can help with personalization on the app or help us get product to their doorstep faster. For our team, where we can allow the process-focused work of the team to get a boost from technology, that frees up our store team to better serve guests. There are a lot of examples within that CapEx investment, but at its core, does it directly support the areas of focus within the strategy?

Speaker 2
45m 31s

Do we like the returns? When the answer to those two questions is yes, you're going to see us invest. Corey, if I can add just one more thing on top of that. When we add new stores, the added benefit for us is that we continue to build out our fulfillment footprint and capability and allows us to also expand our national digital reach as well. There is an added benefit of new stores. Great. Thanks. I forgot to just have a quick follow-up to Michael on your comments on change. I just wanted to double-click on that word specifically and the quotient and the multitude of change that you are thinking about making as we head into 2026 and the benefits that you are seeing from lowering prices on key frequency categories and how you are thinking about the opportunity to cut further costs potentially because we did talk about investing in agility in terms of SG&A. Curious about how you think about the ability for the business to change today and how you're building for the future in that regard. Thanks so much. Yeah, Corey, if I zoom out, change is going to be incredibly important. I mean, you've heard us say quite plainly, we're not satisfied with our performance over the last few years.

Speaker 2
46m 48s

While the third quarter came in as expected, you're not going to get a tone of satisfaction from us until that's accompanied by the growth that comes with a positive comp. We have to do the work. There's no shortcuts. That means driving change to get different outcomes. We're starting all of that change with really clear priorities. We know how Target is best positioned to uniquely win. When we lead with great product, when we're design-led and differentiated, and we pair that with an excellent experience, that's what's driven Target's strength in the best of times before. We think the modern version of that can get the growth outcomes that we want. That does mean doing the work. That means doing the work to make changes like we are in FUN 101 to get different outcomes on the merchandising side. That means making the right investments and driving the change so that that experience can be great in every store every day in stores and online. We're doing the work. Huge credit to the team that you can see the progress of that work in ways that get us excited about what's to come, even within those third-quarter results, because we can see where we've focused and made change.

Speaker 2
48m 7s

We're getting some of the outcomes that we want. Next year will be about expanding upon that to bring more of those wins across the business at greater scale. Great. Thank you so much and best of luck. Thank you. Our next question comes from Joe Feldman with Telsey Advisory Group. Your line is open. Great. Thanks for taking the question. I wanted to drill in a little bit more there on some of the changes. When you're talking about the in-store changes for next year, are there any examples you can give us? I know you mentioned there are key pads within the store maybe. I'm assuming like the FUN 101, but broadening it out, maybe you could share a few examples. I'd be happy to share a few examples. Let me start with FUN 101 because we talk about it as a success story, and we are delivering growth, but it's just beginning. We still have more changes to make to FUN 101 to truly make that a family destination that's full of style, trend, design, pop culture. You're going to see those changes come to life in 2026. The other area that we're making some changes is in home.

Speaker 2
49m 22s

Home has been a challenge business for us. We are making changes to the product to elevate the style of the product, but then we're also changing the store experience to facilitate more discovery, to facilitate more inspiration, and really stand tall for what will be a revamped, a reinvented Threshold brand. Those are some of the areas we're making changes. Obviously, our contract with Ulta Beauty ends August 2026. Teams are working really hard and coming up with some great ideas for how we'll expand our assortment and then how we'll also elevate the experience. We'll be able to share more specifics on that at the financial community meeting. We're making some changes in baby. We think baby strategically is a really important category for us. We have historically done very well there. It's an acquisition kind of category. We bring people into Target, and it starts kind of along several years of loyalty as their children grow up. We have an opportunity to make that space a little bit more inviting, a little more inspiration, and also bring more gifting into it. Those are just some headlines of what we're looking at. We'll be in a much better position at financial community meeting to share more specifics on those plans.

Speaker 2
50m 44s

I got to tell you, I am really excited about these changes. I think, as we said in the prepared marks, this is the most change we have made to the store floor pad in 10 years. It is a lot of work, but we are really excited about it. That is great. Thanks for that, Rick. That was helpful. Just a quick follow-up. With regard to your Target Circle card, can you talk maybe about some opportunities there? It feels like it has been declining. The penetration of Target Circle card, I guess, has been declining a little bit. I am just curious as to you have any reasons as to why that may be and what you can do to kind of recapture some of those customers, maybe where they have gone otherwise. Sure. I would be happy to talk about Target Circle. What we love about Target Circle is its huge size. It's one of the biggest loyalty programs in the country. Now with Target Circle 360, we have a membership component to it. What's really exciting about that is it's really helping to fuel our same-day delivery. Target Circle fueled a 35% comp growth in same-day delivery this past quarter, which is really encouraging.

Speaker 2
51m 58s

The conversations that we're having is now what? How do we continue to innovate and evolve on the platform? Things that we are looking at and trying are early access events with Target Circle 360. We did that this past October with Target Circle Week, and it was really well received. We will be doing a lot more of that this holiday season. The last point I would make is we're really excited to have the first-party data that we get through Target Circle and be able to leverage that for personalization, particularly through this holiday season. That will be one of the tools in the toolbox that we'll be using. Joe, if I can just build on the question also specifically on card, if you're referring to what you see in the results from profit sharing, we did see lower spend, a little bit lower penetration, and overall lower balances in the card program. What's important is what Rick just highlighted as we think about our whole loyalty program holistically across Circle, Circle 360, and the card program, and we're very pleased with the results we're seeing so far. Where we do have an opportunity, Joe, is to use where Rick started with that big base of Target Circle as a better on-ramp to folks for whom a Circle card makes a lot of sense.

Speaker 2
53m 11s

That is a place where we have not yet achieved our potential. Making sure that we, because we can know a guest in Circle so well, means we should be positioned to know which of them at the right point in time would most like a Circle card too. We have work to do on that front. We have not tapped into that to the degree that we would have hoped. You will see that be an area of focus going forward for us. That is great. Thank you, guys. Good luck with the holiday season. Thanks, Joe. Thank you. Thank you. Our next question comes from Mike Baker with DA Davidson. Your line is open. Excuse me, Mike. You might be muted. If you could unmute yourself. Gotcha. Yep. Can you hear me now? Thank you. Okay. I think you said, correct me if I'm wrong, but October flat, yet you're guiding to down low single digits to the fourth quarter. Is that indicative of a little bit of a slowdown post-Halloween? I guess as a follow-up to that, pretty wide range in terms of EPS for the fourth quarter. Can you talk about what you're expecting in terms of margins within that fourth quarter range and how you get to the low end versus the high end, etc.?

Speaker 2
54m 36s

Thanks. Yeah. I'm happy to start, Mike. Jim, feel free to add on. If you look at while the quarter came in where we expected it overall, we definitely did see volatility by month. You heard Jim describe that on a net sales basis, the quarter started with a relatively flat August. We saw a decline in September, and October was about flat. As we step back and think about the fourth quarter, we do it knowing that we saw more volatility by month in Q3 than we would have expected. That factors into how we're thinking about our expectations, but we feel good that we've got the business positioned well heading into fourth quarter. We feel like our top line and bottom line guidance is prudent based on the volatility that we saw in Q3. We start the quarter in a really good place, something we haven't unpacked as much yet. I'll touch on it briefly. Inventory is in a great place as we step into the fourth quarter. On the balance sheet, it's down 2%. It's up in our frequency categories, which makes sense given the investments that we're making there and stronger inventory reliability and in-stocks. It's appropriately down, I think, in an appropriately cautious position in the discretionary categories.

Speaker 2
55m 52s

We start the quarter where we would want to be positioned from an inventory perspective, and we feel like it's the prudent place to be. Jim, feel free to add as we're thinking about profit for the fourth quarter or how we've reflected Q3 trends into that view. Yeah, Mike. If I build upon that, I mean, if you take a step back and look at Q3, obviously, we faced a pretty dynamic environment. As our gross margins and percentage-wise was broadly flat, we're pleased with the performance, and that's in line with expectations. A big thank you to the team to manage and navigate and move quickly with agility to meet the needs of consumers and understand where things are heading. We expect that dynamic to continue in Q4. We do expect a continued volatile environment, which is why there's a little bit still, I guess, a wider range in place because we want to make sure we have the ability to react quickly to changes in the environment. That'll represent the range that we're looking at. The only build I might have, and Rick, feel free to chime in here, is we don't have a perfect crystal ball for exactly how it's going to play out by day or by week in Q4.

Speaker 2
56m 57s

The thing we feel really good about is how we'll show up for the guests. We've touched a little bit in some of the questions on making sure that we meet the guests where they're at. For us, that's always a couple of things because there's a couple of ingredients of how guests view value. It's the combination of great prices, and you've heard us invest in 3,000 price cuts across food and beverage and essentials. We're really excited about a Thanksgiving meal for four under $20 as we step into Thanksgiving here right around the corner. For Target, it's also pairing that great price with incredible product. I'm just as excited about the 20,000 new items that we'll have this coming fourth quarter, twice as many as last year as I am about the great pricing guests will find on those items. It is that combination for us that matters so much. On that front, we feel really good about what guests are going to find as they travel the site and the store in the holiday season. Great. Thank you. Appreciate it, Alex. Thank you. Thank Does that conclude your question? Yes. Thank you. Thank you. Our next question comes from Kate McShane with Goldman Sachs.

Speaker 2
58m 15s

Your line is open. Hi. Good morning. Thanks for taking our question. We wanted to drill down a little bit more on your commentary around inventory and in-stocks. Is there any way you can kind of talk to how you feel about the inventory position going into holiday, how it looks versus last year, and just how you see the cadence of in-stocks improving over time? Yeah, Kate, as I think about inventory broadly, we touched on a little bit of that in Mike's question a second ago, but I do think it's important to spend a moment on in-stocks. I would expect, because being in-stock matters so much to our guests, that's a topic you see us come back to over and over and over again in all of these earnings calls to come because it matters so much. If you've trusted us with a trip to the store, we can't let you down by being out of stock. We haven't been good enough over the last several years on that front. We are laser-focused on improving that. A huge credit to the team for the progress that we've seen so far. I can dimensionalize that just a little bit more here in a second.

Speaker 2
59m 30s

I also want to emphasize that work's not done. The bar for the consumer, for our guests, is higher than ever before on that front. You're going to see us continue to lean in to make progress over time. Where we've started is with a really acute focus on those most frequently purchased items, where if we're out of stock, it hurts more if you're a guest and we've let you down. You heard in my remarks the focus on our top items. Think of those as the 5,000 most frequently purchased items. They account for about 30% of our unit sales. A big piece of what guests are finding and buying every day at Target. As the team has leaned in to make progress on that subset of items, it comes in a whole bunch of ways. It comes with embracing the use of technology to help us forecast better and be more in stock that way. It comes with us having a better view of how we're really performing. We've described before. We've changed some of the measures we use for in-stocks that give us a clearer mirror than ever before of where we're doing great and where we're falling down.

Speaker 2
1h 0m

That's been really helpful because it's told us, "Okay, we might be okay on average in some places, but we're not good enough at the end of the day. Or we have a shortfall on weekends that we need to address." Teams have been hard at work in moving the needle there. On the measures that we move, you heard me describe a 150-basis point improvement in Q3. If you're not close to the work, it's maybe tough to appreciate how big that progress is. What I like is that's better year-over-year improvement in Q3, performance versus last year, than we saw in Q2, which was better than we saw in Q1. That trajectory gets me really excited that we're doing the right work to get a different outcome. If we can keep that progress up, and I have a ton of confidence that that's exactly what we'll do, we'll be more and more in stock as we move through 2026 than we were in 2025. Operator, I think we have time for one more question. Thank you. Our last question will come from Michael Lasser with UBS. Your line is open. Good morning. Thank you so much for taking my question.

Speaker 2
1h 1m

You just outlined a lot of the progress that you're making on key operational metrics such as in-stocks and speed to market, yet we really haven't seen it translate to an overall improvement in the performance of the business. The obvious question is, why not? What, as outsiders, is a reasonable time frame for holding the team accountable for showing that progress? Thank you. Yeah. Thanks for the question, Michael. Here's what I'd say. We're not satisfied with the top-line performance of the business, even as it's come in as we expected in Q3. We are doing the work with urgency. As a team, our focus is to get back to growth. We know that won't happen overnight, but we know what the path is. We're focused on making progress. We see momentum where we're making that investment. A huge credit to the team to do the work that's going to get that outcome over time. We will unpack more what our expectations for next year look like when we get to the financial community meeting in March. I feel really good that we've got a team focused on doing the work now that will lead to growth over time.

Speaker 2
1h 3m

Rest assured, we are tackling that work with urgency. Okay. My follow-up question is, if I could just ask one more. This on Michael. Go ahead. Thank you very much, Michael. I appreciate it. I will add my best wishes to Brian. Thank you very much for this. You've already outlined the $1 billion of incremental CapEx for next year. Perhaps there might be some incremental operating investments that could take down the profitability a bit next year. How, amongst those guardrails, are you thinking about the commitment to the dividend and the importance of that to your certain shareholders moving forward? Jim, feel free to pile onto this one if you'd like. You've heard us describe our support and strong support over time of the dividend, Michael. You shouldn't expect anything to change there. We've been consistent in our capital priorities for as far back as I can remember in my 23 years here. It starts with making the right investments in the business. The $5 billion we'll put to work next year, we're really excited. We'll generate the returns and the growth that warrant that level of investment. The dividend is always the second priority, and I think our track record speaks for itself in terms of our support of the dividend.

Speaker 2
1h 4m

Share repurchase is the with-what's-left piece that we'll always adjust as appropriate, but the dividend sits second in that priority list for a reason. Lookability. Thank you. All right. Thanks, Michael. That brings us to the end of today's call. Thanks, everyone, for your questions and engagement.