Speaker 5
0s

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation First 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 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, May 21, 2025. I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

Speaker 8
38s

Good morning, everyone, and thank you for joining us on our First Quarter 2025 Earnings Conference Call. On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Rick Gomez, Chief Commercial Officer; Michael Fiddelke, Chief Operating Officer; and Jim Lee, Chief Financial Officer. In a few minutes, Brian, Rick, Michael, and Jim will provide their insights on our first quarter performance along with their outlook and priorities for the remainder 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 for his thoughts on the quarter and his priorities for the remainder of the year.

Speaker 8
1m 50s

Brian?

Speaker 3
1m 52s

Thanks, John, and good morning, everyone. As I begin today, I want to pause and thank our team. Throughout the quarter, the Target team of more than 400,000 employees across the country stayed focused on what's most important: serving our guests, supporting each other, and delivering trend, style, convenience, and value. At Target, our roadmap for growth serves as a guide for bringing the best of our brand to life each day. This includes our assortment of on-trend, affordable products and an experience that prioritizes ease, convenience, and a personal touch with every interaction, all at an incredible value. These are the things that make Target Target, and we remain confident that our strategy will allow us to continue bringing joy to millions of American families while, importantly, paving the way for long-term, profitable growth. In the first quarter, our team and our business faced an exceptionally challenging environment that affected our performance with declines in both traffic and sales, most notably in our discretionary categories. For several years now, we've seen pressure in our discretionary businesses as spending adjusted down from elevated levels during the pandemic and then moved further away in the face of historically high inflation in needs-based categories.

Speaker 3
3m 18s

On top of those ongoing challenges, we faced several additional headwinds this quarter, including five consecutive months of declining consumer confidence, uncertainty regarding the impact of potential tariffs, and the reaction to the updates we shared on belonging in January. While we believe each of these factors played a role in our first quarter performance, we can't reliably estimate the impact of each one separately. I want to be clear that we're not satisfied with this performance, and we're moving with urgency to navigate through this period of volatility. Throughout our operations, we're focused on consistency and reliability with an emphasis on retail fundamentals and delivering a superior guest experience that features newness, differentiation, and value. For the summer season, we're offering more than 10,000 new items starting at just $1. In the popular Bullseye's Playground, we will continue offering items at $1, $3, and $5, and we're expanding this assortment to include beauty items as well as trending snacks and beverages. By July, we'll shift to the critical back-to-school and college season, standing tall for value as we focus on supporting families during key life moments. We're also finding new ways to move faster and operate differently, given that uncertainty and the pace of change are higher than ever.

Speaker 3
4m 46s

This morning, we announced the formation of an Enterprise Acceleration Office, which Michael will be leading, as well as several organizational changes to bring even more clarity and speed to how we operate and advance our strategy across the company. As I said in this morning's announcement, this effort goes beyond improving efficiency with a focus on greater adaptability, innovation, resilience, and ultimately growth. Based on his expertise and the insights he's gained for more than 20 years at this company, Michael is the perfect leader for this work. As you'll hear from Rick, the merchandising team has been working tirelessly to mitigate the impact of tariffs, and the difficulty level has been incredibly high given the magnitude of the rates we're facing and a high degree of uncertainty on how these rates and impacted categories might evolve. As a company that aims to deliver great products and outstanding value, we're focused on supporting American families as they manage their budgets. We have many levers to use in mitigating the impact of tariffs, and price is the very last resort. Our strategy is to remain price competitive by leveraging the capabilities, long-standing relationships, and the scale that set us apart from many of our retail peers.

Speaker 3
6m 8s

For example, we're fortunate to have a sourcing team with decades of experience and strong partnerships with our global suppliers. As we're engaging in contingency planning with those vendor partners, we're moving thoughtfully and contemplating a wide range of potential scenarios. We're building our plans to preserve maximum flexibility while protecting our business in the face of massive potential costs. At the same time, we remain committed to supporting this year's investment plans in support of our long-term growth. These investments include an outstanding pipeline of new stores, ongoing remodels of existing locations, and robust investments in technology and our supply chain. Because of this company's long history of disciplined financial management, we have a strong balance sheet and ample cash that will allow us to navigate through these near-term challenges as we continue to invest in making us even stronger over time. In planning for the remainder of the year, we believe it's prudent to expect that current top-line pressures will continue in the near term. However, the results in the quarter provided several key insights that reinforced our confidence in the underlying strength of our business and Target's continued relevance with American consumers. Among those high points, we saw mid-single-digit growth in our first-party digital business this quarter, led by 36% growth in same-day delivery powered by Target Circle 360.

Speaker 3
7m 42s

We also saw continued healthy growth in drive-up, which now accounts for nearly half of our total digital sales. Of course, beyond the direct benefits of rising digital sales, they also fuel the growth of profitable services like Roundel, our retail ad business, and Target Plus, our third-party digital marketplace, both of which saw double-digit growth in Q1. Target's strength has been and will always be our products, partnerships, and incredible value. Especially today, as consumers feel increased pressure, we aim to deliver everyday discovery and delight. This connection between Target and our guests came through during key seasonal moments in the first quarter, including both Valentine's Day and Easter holidays. In addition, we were pleased with the guest response to our most recent Target Circle week as we offered compelling promotions across multiple categories. Of course, we were really pleased with the success of our limited-time design partnership with Kate Spade. Target has long been famous for these programs, and sales results from the Kate Spade partnership were the strongest we have seen in a decade. This highlights the power of the Target brand, our continued style authority, and our best-in-class design and sourcing capabilities, which come together to deliver a singular combination of fashion, quality, and price.

Speaker 3
9m 15s

Progress on inventory shrink was another bright spot in the quarter as rates continued to moderate from extreme levels we encountered in 2022 and 2023. As Michael will highlight later, we are pleased with the performance of the long-term investments we are making in our business, including the return on our investments from new locations and the boost in traffic and sales from our store remodeling projects. In a period of volatility and rapid change, we are absolutely focused on what we do best, providing the best retail experience for nearly 2,000 communities we're proud to serve. We're a company that aims to bring joy to everyone every day, and we're proud to be one of the largest employers in the United States. We believe in creating opportunity for all and developing talent to fuel our business, which includes pathways for promotions, industry-leading pay and benefits, and outstanding education and training. We provide tuition assistance through our Dream2B program, with more than 30,000 team members enrolling in the program since its launch in 2023. Simply put, what we do wouldn't be possible without the incredible Target team. Making meaningful connections within our communities is also part of being a great retailer, and we take our commitment to serving the communities in which we operate seriously.

Speaker 3
10m 42s

Our team volunteers 1 million hours a year with local organizations, and we will continue, as we have for more than 60 years, to donate 5% of our profits back to the community. Of course, we continue to work with a large and diverse base of vendors and suppliers ranging from big national brands to a host of small emerging brands who help us to offer the one-of-a-kind assortment our guests expect from us. Every day in everything we do, we will continue to be anchored in the belief that creating an environment where people feel included, supported, and respected makes us a stronger company. It helps us build and support our talented team, serve millions of guests in all 50 states, and be a valued partner in the communities we serve. As I get ready to turn the call over to Rick, I want to pause and thank our team once again. I'm proud of their resilience and long-term focus. I'm confident we're taking the right steps to accelerate our progress, to deliver more of what our guests love, and to usher in the next chapter of Target's growth story. With that, I'll turn the call over to Rick.

Speaker 7
11m 55s

Thanks, Brian, and good morning, everyone. As Brian shared, our team had to navigate through multiple challenges in the first quarter. Despite these challenges, we saw some compelling proof points that our strategy continues to resonate with consumers. As we've shared for multiple quarters, consumers have been choiceful in their buying decisions, and recent declines in consumer confidence have made them even more cautious. They're focused on finding ways to save as they manage their family's budget. However, as we've noted before, consumers are still making discretionary purchases when they find products at the right intersection of style, quality, and value. We saw these themes play out in our first quarter results where guests focused their spending on seasonal assortments, newness, and compelling promotions. Q1 net sales were down 2.8%, reflecting a decline in traffic as well as a lower average basket. Within our six core merchandising categories, there are 35 divisions for which we measure market share. We held our gain share in 15 of those 35 over the trailing three months, with strong gains in apparel categories like women's swimwear, performance, and toddler, as well as gains in seasonal merchandise, books, and produce and floral. While we are pleased to see those positive results, our goal is to hold or grow share across the majority of our assortment.

Speaker 7
13m 14s

As such, we are not satisfied with our first quarter performance, and we are laser-focused on improving these trends over time. Target has long been known as the go-to place for key moments, including holidays, the turning of the seasons, and other celebrations. In the first quarter, top-line trends got meaningfully stronger around Valentine's Day and Easter. In addition, as weather has warmed up across the country, we are seeing momentum in categories like outdoor toys, pool accessories, and summer food and beverage items. Of course, beyond seasonal moments, we also create unique-to-Target collaborations like our latest design partnership, Kate Spade for Target. Target pioneered the idea of making fashion affordable for all. Though we've been doing this for decades, our guests still love and eagerly await these collaborations. As Brian shared, the Kate Spade collection was the most successful limited-time partnership we have had in more than a decade, reinforcing Target's style authority and our ability to work with the most sought-after designers. It also showed that newness and style at irresistible price points can drive demand in otherwise soft discretionary categories. This is something we'll continue to lean into going forward. Consumers aren't just seeking newness and value during seasonal moments.

Speaker 7
14m 28s

They want and expect it every day. For example, in toys and sporting goods, our expanded assortment of items priced under $20 is performing well as we look to help families find even more affordable joy at Target. In apparel, we saw strength in categories like women's swim, where new owned brand offerings at competitive price points beginning at just $12 provide the style and affordability consumers are looking for. Another way we deliver newness and value is through our Target Plus marketplace, where we have set ambitious goals to grow GMV to $5 billion by 2030 by offering even more brands and products guests want and expect from Target. We're looking to achieve this across all our core categories, with particular focus on home and apparel, where breadth of assortment matters most to consumers. This quarter alone, we grew Target Plus GMV by more than 20%, adding hundreds of new partners to the platform, driving traffic, and increasing conversion online. Another way we deliver value to our guests is through Target Circle, and they responded enthusiastically to our recent Target Circle week, which offered compelling promotions on great products. Beyond the short-term traffic and sales benefit, these events help position Target as a value player at a time when that's more important than ever.

Speaker 7
15m 48s

Before turning to our plans for Q2, I want to pause and re-emphasize that while we are encouraged by these bright spots, our overall results are not delivering at the level we want. We have work to do, and our teams are aligned and committed to improving our performance and returning this company to growth over time. Looking ahead to the second quarter and beyond, a key focus will be navigating the ever-changing tariff landscape as we work to deliver on our business goals while doing what we do best: providing outstanding product at incredible prices. Our teams have been hard at work to minimize tariff headwinds through multiple strategies, including negotiating with our vendor partners, re-evaluating assortment decisions, changing country of production where we are able, adjusting order timing, and where necessary, adjusting prices. We're building these plans with a premium on flexibility, allowing our team to read and react to changing tariff impacts and consumer trends as we navigate through the uncertainty. All in, these efforts are expected to offset the vast majority of the incremental tariff exposure, thanks to the incredible work of our team. Even as we plan for these current pressures to continue, we're also placing smart bets in key areas focused on the latest styles, trends, and cultural moments.

Speaker 7
17m 9s

Given our strong affinity with the Nintendo brand, we're excited for this summer's arrival of the Nintendo Switch 2. We're one of the top retailers in the U.S. for this launch and can't wait to bring joy to families with this highly anticipated release. Given our brand purpose to help all families discover the joy of everyday life, throughout the summer season, we'll be leaning in, offering style-forward, mix-and-match, red, white, and blue outfit options for the whole family and more than 10,000 new summer items starting at just $1 and most of the assortment under $20. By the end of the second quarter, the focus shifts to the return-to-school routines. With back-to-school and college representing the second biggest season of the year, we're planning to deliver our unique mix of style and affordability. In our back-to-school assortment, we're standing tall for value, ensuring every student gets the supplies they need for a successful school year. For our college-bound guests, we're creating an easy-to-shop assortment of on-trend, affordable, mix-and-match items to personalize their dorm rooms. Finally, as we focus on building engagement with new and existing Target Circle 360 members, we're implementing changes to make same-day delivery even more affordable through an industry-leading offering.

Speaker 7
18m 23s

As you know, for items delivered same day from Target, we've never marked up prices, and now we're extending that policy for all other retailers on the platform. Beginning this week, we've introduced no-price markups on same-day delivery for the more than 100 retailers available on Shipt Marketplace. Many membership programs provide access to only one retailer, and others offer deliveries from multiple retailers but charge additional fees. With Target Circle 360, members get unlimited same-day delivery with a personal shopper and access to Shipt's Marketplace of more than 100 other retailers like Petco, CVS, Lowe's, popular grocers, and more. Before I turn things over to Michael, I want to acknowledge just how hard the Target team works to serve our guests, to care for each other, and to bring the Target brand to life. You truly are the best team in retail, and I particularly want to say thank you for your tireless efforts to navigate the complexities and the challenges of the current environment. Thank you for all you do for Target and for the millions of families we are proud to serve. With that, I'll turn the call over to Michael.

Speaker 1
19m 37s

Thanks, Rick. I'd like to start this morning where Rick left off with a huge thank you to our team, from our sourcing offices overseas to the teams in our stores and supply chain facilities and everyone at our headquarters. The current environment is incredibly challenging, and you all continue to navigate it with determination, agility, and an unwavering focus on serving our guests. Thank you for all that you do every day. Despite the challenges currently facing our business, our teams are making meaningful progress against the priorities we laid out in our recent financial community meeting, including improved in-stocks and inventory reliability, faster and more efficient digital fulfillment, continued investments in both the in-store and digital shopping experience, and bringing the best of Target to more communities. First, regarding inventory reliability, we remain focused on improving overall in-stock levels with a particular focus on top-selling items and peak shopping periods. While there's still work to do, we're making real progress. In virtually every way we measure inventory availability, from the overall purchasability of our total assortment to the in-stock position on key items, we've seen improvement year over year, building on the increases we've delivered for well over a year now.

Speaker 1
20m 55s

Thanks to the many efforts of our team, we've continued to make very compelling progress on inventory shrink with far better results earlier in the year than we expected, helping to improve our inventory reliability as well as our profitability. One additional note on inventory, which was up 11% over last year. Given slower-than-expected sales, we are taking actions to right-size inventory, which puts some profit pressure on the business in Q1 and will likely lead to some incremental markdowns and receipt adjustment costs in the second quarter as well. We believe these actions in the first half of this year will rebalance inventory well heading into the back half. Jim will share more on this shortly. Beyond inventory reliability, we also want to ensure that when our guests place digital orders, they are fulfilled quickly and efficiently. I am pleased that in Q1, our average click-to-deliver speed was nearly 20% faster compared to last year, one of many factors contributing to our strong digital growth. Of course, when guests are focused on speed, our same-day services rise to the occasion, one of many reasons they grew another 5% over last year in the first quarter. Altogether, with continued growth of our same-day services and the expansion of next-day shipping availability across the country, we fulfilled more than 70% of all Q1 digital orders within a day, a strong base for us to build upon.

Speaker 1
22m 18s

One of the ways we're increasing shipping speed is by utilizing Shipt's network of independent drivers to deliver packages from sortation centers and, in some cases, directly from stores. In Q1, Shipt drivers fulfilled 24% more packages year over year, speeding up delivery and reducing costs at the same time. We see a lot of room to continue increasing the adoption of services like drive-up and same-day delivery while we also expand next-day shipping to more and more guests over time. Among our same-day services, we're seeing the most rapid growth in same-day delivery powered by Target Circle 360, which increased by more than 35% this quarter. As guest engagement with this membership service continues to grow, we're continually looking for ways to deliver even greater differentiation and value. As Rick shared earlier, we're excited about our latest benefit for Target Circle 360 members: no markups on same-day delivery orders from Target and now the more than 100 retailers included on Shipt Marketplace. We know that the ability to get free deliveries from multiple retailers is valuable to our members. Here's one way to think about it. When we choose where to open physical stores, we're intentional about selecting locations that are convenient for our guests and situated near other prominent retailers.

Speaker 1
23m 37s

This strategic placement not only increases visibility but also drives relevance and foot traffic by aligning our brand with familiar and complementary shopping destinations. We apply the same philosophy to Target Circle 360. By offering same-day delivery from a wide variety of retailers through Shipt Marketplace, we create a digital environment that mirrors the high-traffic, high-relevance experience of a bustling retail center. This proximity, whether physical or virtual, enhances discovery, encourages cross-shopping, and builds affinity and relevance for the Target brand. Of course, we continue to invest in our physical stores, opening new locations and updating existing ones, not just to bring our latest strategies and ideas to life but also to support the continued expansion of our digital business. We often get questions about how we allocate investments between our stores and our supply chain facilities. While we do invest in both types of assets separately, it is important to note that an investment in our stores is also an investment in our supply chain due to our unique stores-as-hubs model. This model works because of our differentiated assortment strategy and our proximity to consumers, allowing our stores to play a dual role: serving as an inspiring shopping destination and as the primary source for fulfilling online orders.

Speaker 1
24m 57s

As a result, in the first quarter, 96% of our net sales volume was fulfilled by our stores. This past quarter, we added three new store locations around the country, and we're on track to open around 20 for the year. Additionally, given the strong returns on investment we see, we've launched another wave of store remodel projects this spring. In fact, for the store remodels we've completed in recent years, we've seen strong comp lifts following the completion of these projects of 2-4% in the year following a remodel and a nearly 3% incremental lift in year two as well, another indication that our guests love newness, including in the store shopping experience. In both our new and existing locations, our store teams want to provide a warm, friendly, and helpful experience on every guest visit. It's why we're encouraged to see increasing Net Promoter Scores on top of already high ratings on metrics including the ability to find products, overall wait time at checkout, and interactions with our team, both while shopping and at our check lanes. As I said at our financial community meeting, and I'll say again this morning, we won't confuse progress with potential. We have work to do.

Speaker 1
26m 5s

As we announced earlier this morning, we're taking action to return our business to growth with greater speed and intention. As you heard from Brian, I'll be leading a newly created acceleration office for the enterprise aimed at removing friction and enabling the team to make faster decisions in support of our growth. To be clear, we still firmly believe in our differentiated strategy, but in today's environment, we need to become more agile and move with greater speed. Through this office, I'll partner with leaders across the organization to more boldly embrace and harness the power of technology and AI beyond what we are already deploying. As a natural extension of our roadmap for growth, our priority will be enabling more efficient and cost-effective ways to work. This work goes beyond improving efficiency and includes finding ways to use assets more effectively and more intentionally prioritizing the work of our team, allowing them to move faster than we have in the past. For example, we have some compelling technology projects in flight that will modernize and streamline core inventory management and allocation processes. Our aim is to move them forward with pace. I'll have far more details to share over time, but for now, I want to emphasize that our team is fully committed to this work so we can more quickly deliver on the long-term aspirations we have for our business.

Speaker 1
27m 21s

As I get ready to turn the call over to Jim, I want to reiterate a point I made a few months ago and again this morning. We are pleased with the progress we've made in support of the long-term growth we know we can achieve, but we know we can do more faster. There is no shortage of urgency and passion from this team to return to growth and solidify our position as a leader in American retail. With that, I'll turn the call over to Jim.

Speaker 2
27m 46s

Thanks, Michael. As Brian mentioned earlier, we faced several sources of pressure on the top line this quarter. Sales declined 2.8% as a comparable sales decline of 3.8% was partially offset by the benefit of new store sales and double-digit growth in non-merchandise sales. Among the drivers of our comp sales, traffic declined 2.4%, while average ticket was down 1.4%. First quarter GAAP EPS was $2.27 and included $0.97 of benefit from the favorable resolution of interchange fee litigation for which we were the plaintiff. Adjusted EPS, which excludes that $0.97 benefit, was $1.30 compared to $2.03 last year. On the gross margin line, our Q1 rate of 28.2% was about 60 basis points lower than last year, reflecting about a point of pressure in merchandising driven primarily by higher markdowns, along with about 80 basis points of pressure from digital fulfillment and supply chain, partially offset by about 120 basis points of favorability from lower inventory shrink. On the SG&A line, our reported rate of 19.3% was about 170 basis points lower than last year as the gains from the litigation settlements were recognized on this line. Excluding those gains, our underlying first quarter SG&A rate was 21.7%, about 70 basis points higher than last year as pressure from sales deleverage and continued team investments were partially offset by the benefit of our cost improvement efforts.

Speaker 2
29m 14s

I want to pause and acknowledge the team's disciplined focus on productivity as underlying SG&A expenses, excluding the gains from litigation, grew less than 1% compared with last year, even as we continued investing in team member pay and benefits. Our first quarter DNA rate of 2.7% was about 20 basis points higher than a year ago, reflecting a year-over-year increase in depreciation on capital projects as we ramp up activity from last year's pace. Altogether, our Q1 operating margin rate was 6.2%, including about 250 basis points of benefit from the legal settlements. Turning now to capital deployment, our priorities remain the same as they've been for decades. Our first priority is to invest fully in our business and projects that meet our strategic and financial criteria. Second, we look to support the dividend and increase it annually. Third, we deploy any excess cash for share repurchases within the limits of our middle-aged credit ratings. CapEx in the first quarter was $790 million, and based on updated estimates of project timing, we're now expecting our full-year CapEx will be near the lower end of the $4 billion-$5 billion range we laid out for the year. Regarding the second priority, we paid $510 million in dividends in the first quarter, and we'll recommend that the board authorize a small increase in the quarterly dividend later this year.

Speaker 2
30m 32s

Finally, we deployed about $250 million for share repurchase in the first quarter, retiring 2.2 million of our shares. However, with increasing uncertainty regarding the magnitude and timing of potential tariffs, we did not repurchase any shares in April. Recent news of moderating tariff rates has been very encouraging and may open the door for additional repurchase activity later in the year. Of course, the magnitude and timing of repurchases will be governed by our long-held capital priorities and ratings goals. As we look ahead, we remain confident in the underlying health of our business and our strategy, and we have a clear plan for navigating through this challenging environment. When we provided our initial guidance back in March, we said that we expected disproportionate pressure in the first half of the year, most notably in the first quarter. More specifically, we said that we expected to see Q1 pressure from team member investments, healthcare, general liability, and startup costs from our capital investments. Together, these items accounted for about $0.50 of year-over-year pressure on our first quarter adjusted EPS. In addition, we faced pressure from lower-than-expected sales, which resulted in higher-than-expected markdowns. Offsetting these pressures were significant savings from lower inventory shrink and the benefit of cost efficiency and productivity efforts on the SG&A line.

Speaker 2
31m 49s

We expect many of those Q1 themes to persist in the second quarter, with headwinds including continued sales pressure, tariff impacts, and some additional costs to adjust inventory and receipts, with continued benefits from lower shrink and productivity gains. In the back half of the year, we will be lapping easier comparisons from 2024 and expect to have inventory and receipt adjustment costs behind us. For the full year, we believe it's prudent to plan for a low single-digit decline in our sales in line with our first quarter performance. Based on these lower expected sales, we anticipate downward pressure on profitability with meaningful offsets from lower shrink and cost initiatives. Altogether, we've updated our adjusted EPS guidance to an expected range of about $7-$9 for the full year. This wider range reflects the expected impact of tariffs and heightened uncertainty regarding the economy and consumer spending. In terms of GAAP EPS, our updated range is about $1 higher, from $8-$10, due to gains we recognize from the litigation settlements. Importantly, our updated full-year adjusted EPS range includes a number of near-term costs that we do not expect to repeat in future years, including actions in response to tariff announcements and inventory and receipt adjustment costs on softer-than-expected sales.

Speaker 2
33m 4s

The expected impact of these headwinds is similar in magnitude to the offsetting GAAP EPS benefit from the litigation settlements. As such, we believe this year's expected GAAP EPS range is a better reflection of the ongoing profitability of our business. In the near term, given the challenges we're facing, we're managing the business with two overarching priorities for the year. The first is to ensure that we deliver solid performance in 2025, with shrink and productivity improvements offsetting the impact of softer-than-expected sales, while best positioning our business for meaningfully better results in 2026 and beyond. We'll do this by focusing on the appropriate growth drivers, managing our costs to match the pace of sales, and ensuring we exit 2025 in a healthy position in terms of profit margins and inventory levels. The other priority is to continue investing in our business, including in our stores, distribution centers, and in technology, including AI, to ensure we're positioned to deliver the long-term profitable growth we know our business can deliver over time. I want to join the other speakers this morning in thanking our team, both for their commitment to serving our guests and their disciplined focus on productivity and efficiency in a highly challenging environment.

Speaker 2
34m 18s

I also want to reiterate some of the bright spots you've heard about this morning, including digital growth of around 5%, led by 36% growth in same-day delivery, encouraging performance during seasonal moments like Valentine's Day, Easter, and most recently, Mother's Day, holding or gaining share in just under half of the categories we track, the best performance of a designer partnership in a decade, and continued strong returns on our investments in new stores, remodels, and technology. We're looking to build on these bright spots in the quarters and years ahead while increasing our speed and agility under Michael's leadership of the acceleration office. While a volatile trade environment will likely remain a challenge for a while longer, we're fortunate to have a strong and experienced global sourcing team and a healthy balance sheet that will allow us to weather significant volatility and continue to invest in our business, while others in a weaker position may struggle. We're confident that if we continue to focus on the long game, we will benefit from meaningful growth and market share opportunities in the years ahead. Now I'll turn the call back over to Brian for some closing remarks.

Speaker 3
35m 22s

Thanks, Jim. Before we turn to your questions, I want to emphasize a few things you've heard from us today. First, while we're not satisfied with our current performance, we are confident in our strategy and our ability to deliver long-term profitable growth by bringing together our cross-category mix of national brands, own brands, and unique partnerships. With an experience that prioritizes ease, value, and a personal touch, we are delivering the everyday discovery and delight that makes Target Target, while modernizing our approach for today's consumer. This is what we leaned into our competitive strengths to build the industry-leading fulfillment model we have today, one that continues to drive strong digital sales and growth in same-day services like drive-up and same-day delivery powered by Target Circle 360. We are leaning into those same strengths to further differentiate our assortment and experiences with investments in Target Circle, Roundel, Target Plus, and more. This leads me to my second point. We are committed to delivering on our strategic priorities faster. With the enterprise acceleration office, we are changing how we operate to create the conditions for our team to advance our priorities more quickly and remain adaptable to the changing landscape for our business.

Speaker 3
36m 41s

This will not only help us meet the demands of today's environment, but enhance our performance for years to come. Finally, I want to emphasize that Target is well-prepared to navigate the near-term challenges of today while continuing to invest in the future. We are in the fortunate position of having the scale, relationships, and balance sheet to weather uncertainty with a focus on delivering value to our guests. At the same time, we'll keep investing in our stores, supply chain, and technology so that we are well-positioned to serve guests both today and over time. Our unwavering commitment to bringing joy to everyone every day will continue to guide everything we do. All of this is possible because of our team, and I appreciate all they've done and continue to do to support our guests and each other. Today, even as I'm not satisfied with our Q1 results, I'm confident in our strategy, the actions we're taking to accelerate that strategy, and the ability of our team to move our business forward and emerge a stronger company than before. With that, we'll open up the line for Q&A. Now, Rick, Michael, Jim, and I will be happy to take your questions.

Speaker 5
38m 0s

Thank you. We will now begin the question-and-answer session. To ask a question, please press star followed by one. To withdraw your request, press star two. Our first question will come from Christopher Horvers with JP Morgan. Your line is open.

Speaker 4
38m 18s

Thanks. Thanks and good morning, everybody. My first question is a little bit on the guidance. Is your expectation that comps turn positive in the back half or by the fourth quarter? On the gross margin line, will the inventory adjustment cost essentially be behind you such that in the back half, the shrink tailwinds in advertising and so forth will allow gross margin to be up? Thank you.

Speaker 3
38m 47s

Jim, go ahead.

Speaker 2
38m 49s

Yeah, sure, Chris. On the comps, as I indicated, we expect to have low single-digit declines for the balance of the year, and that would include Q4. As Michael mentioned on the call, the inventory and receipt adjustment costs we expect to occur mostly in the first half of the year, and then we'll get through that by the second half of the year.

Speaker 4
39m 10s

Got you. Then on the shrink line, that $120, it seems like that would suggest you're pretty close to getting back to 2019 in terms of recapturing all the shrink. Is that $120 a good number to think about for the rest of the year, or was this some sort of a—was there a catch-up adjustment that happened in the first quarter that doesn't persist into the balance of the year? Thank you.

Speaker 2
39m 36s

Chris, you got that right. I think there's an element of catch-up as we do the store counts that gets to the 120 basis points of shrink upside. For the balance of the year, you can expect that we'll recover the vast majority of the shrink that we saw, the headwinds we saw over the last couple of years.

Speaker 4
39m 55s

I guess any quantification of what that is?

Speaker 2
40m 0s

As you recall, we've tried to claw back 120 basis points of headwinds. We clawed back about 40 last year, and we look like we'll recover the vast majority of that of the balance.

Speaker 4
40m 13s

Got it. Have a great rest of spring. Thank you.

Speaker 3
40m 17s

Thanks, Chris.

Speaker 5
40m 20s

Thank you. Our next question comes from Kate McShane with Goldman Sachs. Your line is open. Hi, good morning. Thanks for taking our question. I wanted to ask about tariffs. Rick mentioned that your efforts are expected to offset the vast majority of the incremental tariff exposure. Can you talk a little bit more about how you're going about that and what your view is on prices in the back half and any demand elasticity? When it comes to what we see in the stores for a holiday, would you expect it to look much different versus previous years?

Speaker 3
40m 54s

Rick, you want to provide some color on tariffs?

Speaker 2
40m 56s

I'm sure I'd be happy to. I think I'd start by saying, as we think through and navigate tariffs, the first thing that we're committing to is to deliver high-quality product at affordable prices. That really is our North Star. Our teams have been working very hard to offset the vast majority of the tariffs. We're able to do that because of Target's size and scale, our multi-category business, which gives us flexibility, the productive partnerships that we have built with our vendors and suppliers, and then our best-in-class global sourcing team has put us in a good position to be able to navigate these tariffs. The strategies that the teams are employing as we speak include diversifying the country of production. Half of what we sell comes from the U.S. Beyond that, we have the most control of where we produce when it comes to our own brands. With our own brands, we have been on a multi-year journey to diversify countries of production. Going back to 2017, we were 60% coming out of China. We've brought that down to 30%, and we are well on our way to be less than 25% by the end of next year.

Speaker 2
42m 11s

We are expanding into new countries, Asia, as well as the Western Hemisphere. I think it's important to note that we're also exploring opportunities here in the U.S. The other strategy that the team's employing is evolving our assortment. We talked a little bit about this in the prepared comments, but Bullseye's Playground, I think, is a great example. It's at the front of the store. It's the section where guests come in and they look to discover fun, seasonal, low-priced items. We have made a commitment to keep those at $1, $3, and $5. It's important to the brand, but it's important to the guest. To do that, we've evolved the assortment, and we've brought in some new trending beauty items, and we've also brought in some new seasonal food and beverage items. The last point I would say is we are partnering very closely with our vendors and our suppliers to ensure that we are able to provide the best value that we can for the consumer. Through all those strategies, we feel that we can offset the vast majority of the tariff impact.

Speaker 3
43m 19s

It almost builds on several of Rick's comments. I think we all know the tariff environment right now is still very uncertain. We are certainly working and looking for greater clarity around trade agreements and what the long-term tariff rates will be. I want to recognize the work that Rick's team has done, Michael's team, Jim's team, in an environment where you can imagine lots of scenario planning, but with a focus on delivering what's best for our consumer in this environment, making sure we leverage our multi-category portfolio, our own brands, the experience of our sourcing team, and making sure that we are delivering newness and value and remaining price competitive in an environment that's rapidly changing. We will continue to provide updates as we go forward as we mitigate through the tariff uncertainty. I think the teams have done a tremendous job in making sure we start with the consumer, we continue to deliver great product, great value, and remain price competitive in this environment.

Speaker 5
44m 19s

Thank you. Thank you. Our next question comes from Rupesh Parikh with Oppenheimer. Your line is open. Good morning, and thanks for taking my question. I just wanted to go back to in-store comp trends. As you look forward, what are some of the key efforts, tactics to help drive stronger traffic in in-store trends? As you look at your business today, how do you feel about your price gaps and price positioning?

Speaker 2
44m 45s

I'm happy to start. Rupesh, as we sit here today, and you heard this from Michael, you heard this from Rick, we start with a focus on good retail fundamentals. We've got to make sure in this environment we are consistent, reliable. That is code for making sure we're in stock every time you shop. We've got to make sure we provide a great in-store experience. That starts with great assortments, great newness, and great value. We've got to be really laser-focused on providing a great in-store experience every time our guests shop. Michael, Rick, their entire teams, we are focused on this each and every day. It starts with great retail fundamentals, making sure we're focused on managing inventory effectively, continue to provide the great service our guests are looking for. It is that combination, as Rick talked about. We've got to make sure style, trend, fashion, that Target magic is something we lead with. We complement that with great essentials, great food and beverage, and great execution each and every day. Yeah. I mean, just to build on that a little bit, Brian, we have said that we weren't happy with our performance in the first quarter, but there were some bright spots.

Speaker 2
45m 57s

When we saw that we brought style and trend and high-quality product at an affordable price, the consumer responded. We saw that with Kate Spade and delivering kind of the biggest designer collaboration that we've had in over a decade. We also saw that when it came to Valentine's Day, Easter, and more recently Mother's Day, that Target continues to be the go-to destination for seasons. We're excited for our plans for Q2 because we're going to take those learnings and we're going to lean into that and drive traffic and sales in the second quarter. We are going to celebrate 100 days of summer from Memorial Day all the way to Labor Day. We're going to be launching 10,000 new items starting at $1 with the majority under $20. We're going to be sharing our take on Americana, Americana done the Target way, red, white, and blue for the whole apparel, for the whole family. That looks terrific. We'll have in-store events every Saturday in June. We're going to have increases in summer media to drive traffic to those events and to drive traffic to the store and to our site. Of course, we've got a couple really big launches this summer that we're excited about.

Speaker 2
47m 15s

The first will be Nintendo Switch 2. Based on the pre-orders, there's a ton of excitement for this. We plan to be the retail destination for all things Nintendo Switch. The other big launch that we have is Champion. Champion is really the epitome of Target. It's stylish sportswear for the whole family at really affordable prices. We think that's going to be a big hit with the consumer as well. We're taking the learnings from Q1, and we're leaning in big time in Q2 to drive traffic and to drive improved performance.I

Speaker 3
47m 52s

might just build on that a little bit as well to emphasize the point Brian started with. Those fundamentals matter. I mean, we know some of what makes the Target experience special is a great in-store experience. The team navigated a lot of challenges in the first quarter. Amidst that tough backdrop, we made progress on some of the goals that we set out at our financial community meeting. In virtually every way we measure in stocks, we're stronger this year than we were last year. We look really closely at what our guests are telling us they're seeing in terms of experience. We saw some nice steps forward in the measures we use from a Net Promoter Score perspective to see progress there. We are laying good foundation that will serve us well in the balance of this year and beyond in places where we are getting faster with shipping. That 20% increase year over year in our click-to-deliver speed, that is going to be a benefit our guests are going to see for months and months to come. A huge thanks to the team for making that progress. We said at the start of the year, we had some work to do to get to a higher bar on some of those fundamentals.

Speaker 3
48m 59s

We took a nice step forward in the first quarter, and we are not done.

Speaker 2
49m 3s

I think there was part of the question was also price gaps. There is a lot covered in the question, but we want to go back and cover that. What I would say on price gaps is, first and foremost, we are very committed to delivering value to the guests and to deliver competitive pricing. We watch competitive pricing very closely, and we watch price gaps. For now, we are comfortable with where our price gaps are. I do think it is important to think of value more broadly than just price. We think about it in a lot of different ways. One way in particular is with Target Circle 360, is how we deliver value with promotions. One of the things we are really excited about right now is a new benefit that we are adding to Target Circle 360. Now, we have never had markups for same-day delivery of Target orders. Now we're going to offer no markups for hundreds of retailers on the Shipt platform. This is going to offer incredible value as well as ease and convenience for our members. It is just important to think about value more broadly. We like to think of the Target value as price plus style and ease and convenience.

Speaker 2
50m 19s

Thank you for all the color.

Speaker 5
50m 22s

Thank you. Our next question comes from Michael Lassar with UBS. Please go ahead.

Speaker 3
50m 29s

Good morning. Thank you so much for taking my question. In order to address some of the challenges, it seems necessary to diagnose the problem. Is it right to characterize that the challenge that Target has experienced in the last few years is that other retailers have caught up and addressed some of the differentiation and qualities that have made Target unique? As Target has tried to catch up, its execution has become less consistent. Now, to try and address these issues, the focus is on improving execution. Is that right? Is it enough? Thank you very much. I have a follow-up. Michael, it's a great question. I think we've talked about that quite a bit this morning. You've heard Michael talk about it starts with retail fundamentals. We know we've got to be reliable. We've got to be consistent. We've got to make sure we are managing inventory effectively in this environment. We've got to continue to make progress with shrink. Those are fundamentals each and every day that are embedded in our business. Rick's talked about the importance of blending newness with great assortments, bringing that style, that trend, that Target magic forward each and every day. That's part of the value equation we've got to be delivering.

Speaker 3
51m 58s

We know we've got to continue to invest and accelerate our digital performance. Michael's talked about the additional speed we've added. Rick's talked about the additional benefits we're adding to Target Circle 360. Those are fundamental. We've got to continue to make sure we're investing and growing our retail media business, Target Plus, and embedding technology, Michael, in everything we do. You know, as I do, retail is a world of fast followers. have got to continue to set the pace. Those key seasonal moments, those limited-time offers, the newness we can bring to our assortment, that is what separates Target from our competition. Each and every day, we have got to be reliable. We have got to be consistent. We have got to make it easy and exciting for our guests to shop. Those are the things we wake up every day focused on.

Speaker 2
52m 48s

We know that when we deliver the Target magic, the consumer responds. If you think about this past quarter, we competed in 35 categories. Of those 35 categories, we gained or held share in 15. Our goal is to do better than that, to hold or gain share in the majority. We did hold and gain in 15 categories that cut across both everyday categories like beverages, produce, floral, but also discretionary categories like women's swim, performance, toddler apparel. The common theme is when we deliver newness at a great value, we see strong performance. I'll give you some examples that we're really excited about. In our home business, we launched Parachute, which is a DTC brand, a more premium brand. It is doing really well. We just launched new fabric, new colors, new prints in Parachute. It's also doing well. We launched Disney and Marvel collections for Pillow Fort. Again, very positive response from the consumer. When we can continue to deliver that on-trend, style-forward product at an affordable price, we see the consumer respond, even in some of these discretionary categories which are challenged. That is what we are going to be leaning into and doing more. I will give you one more example because it is a favorite one of mine.

Speaker 2
54m 19s

Just in time for Mother's Day, we launched Good Little Garden, which is a floral brand. The business took off, double-digit growth, $6 bouquets. We are seeing double-digit growth, and it is continuing well beyond Mother's Day. That is what we just have to continue to do more of, is bring that Target magic.

Speaker 3
54m 39s

Maybe just to add one more thought there. You heard Brian use the word pace. Just to connect to the acceleration office that we're standing up, the word acceleration is quite intentionally picked. You can hear what powers the strategy, the newness Rick talked about, the fundamentals that Brian and I have talked about. We've got a strategy that's built for growth. We need to move down that path faster and with more pace. The work that we'll be doing with the acceleration office and more to come as we get into that work will be about streamlining how we operate and fast-tracking critical work in areas like technology that'll help us accelerate with pace down that strategy.

Speaker 2
55m 19s

Michael, I'll finish with a point that you've heard Rick talk about before, you've heard Cara Sylvester talk about. I do think it's one of the things that drives differentiation at Target and always has. It is that magic mix of great national brands, our very unique own brand portfolio that now exceeds $31 billion, and the fact that we're a destination for those emerging brands that our guests love to discover at Target. Those are areas we'll always lean into. That magic mix of our national brands, our unique own brands with many billion-dollar brands in our portfolio, and the fact that we're a destination for those new discovery brands, those are things we've got to constantly be focusing on because that's what separates Target from so many of our competitors.

Speaker 3
56m 9s

Understood. IfI could just add one quick follow-up question. The big debate on the heels of your result this morning is whether Target properly de-risked the outlook for the remainder of the year. It seems like the message is we just straight-lined what happened in the first quarter to the rest of the year. The environment may not be as favorable as it was in the rest of the year. There may be more investment necessary over the next couple of quarters. How would you frame the downside or at least the potential that the guidance has sufficiently been de-risked? Thank you very much.

Speaker 8
56m 48s

Michael, it's Jim here. Yeah, I think you framed it up correct. As we look at the balance of the year, we have taken a cautious outlook for our sales outlook as we look at low single-digit declines for balance of the year. The tailwinds we're seeing from shrink and productivity and what we'll expect to see from the enterprise acceleration office and just moving faster is going to give us the oxygen to ensure that we continue to invest behind our brands and invest in our capital priorities as well.

Speaker 2
57m 18s

Operator, we have time for one last question this morning.

Speaker 5
57m 23s

Thank you. Our last question comes from Edward Kelly with Wells Fargo. Your line is open. Yeah. Hi, good morning. Thank you for taking my question. I wanted to follow up on guidance and tariffs. I just want to make sure that we're clear on what's in the guidance. Are you saying that $7-$9 includes the 30% tariff on China, that most of the offset can take place without pricing, and that your confidence in hitting that target, that guidance, is very high? I think what we're trying to do is just make sure we properly understand and assess the risk related to pricing and elasticities and any potential markdowns if you need to take greater pricing action.

Speaker 2
58m 11s

It's a broad-based question, but I'll start, and then Jim can certainly add some additional color. As we sit here today, we have been certainly contemplating the impact of tariffs on our business. The current tariff rates are built into the scenarios we've been working with. We've been looking at inventory management over the balance of the year, how we'll play pricing and promotion. That's all bundled into our current guidance. I think we've taken a very conservative approach as we think about inventory management, how we're going to price and promote in this environment. Obviously, there's still lots of uncertainty. The wide range of our guidance for the full year, I think, gives us the flexibility to make sure that we can take the actions that are built into our plan.

Speaker 8
58m 52s

To build on that, the range of $7-$9 includes both uncertainty around consumer confidence and on discretionary in particular and potential impacts from tariffs. We have been playing, as Rick mentioned in detail, we've been ensuring we're really agile and flexible across a range of scenarios on tariffs. We feel pretty comfortable that we can mitigate the vast majority of those impacts across sort of a wide range of those outcomes.

Speaker 2
59m 20s

right. Operator, that concludes our first quarter call. I appreciate everyone joining us today, and we look forward to talking to you in the coming weeks.

Speaker 5
59m 31s

it.