Target Corporation (NYSE:TGT) Financial Community Meeting Call October 30, 2013 1:00 PM ET

Executives

Gregg Steinhafel - Chairman, President and Chief Executive Officer

Tony Fisher - President, Target Canada

Kathee Tesija - Executive Vice President, Merchandising and Supply Chain

Casey Carl - President, Multichannel and Senior Vice President, Enterprise Strategy

Jeff Jones - Executive Vice President and Chief Marketing Officer

John Mulligan - Executive Vice President and Chief Financial Officer

Analysts

Matt Fassler - Goldman Sachs

Dan Binder - Jeffries

Greg Melich - ISI

Priya Ohri - Barclays

Walt Pearson - Brown Capital Management

Peter Benedict - Robert Baird

Chris Horvers - JP Morgan

Jason DeRise - UBS

Jack Balos - Focus Research

Bernie Sosnick - Gilford Securities

Patrick McKeever - MKM Partners

Randy Harris - Trendex

Gregg Steinhafel - Chairman, President and Chief Executive Officer

Good afternoon and thank you all for joining us in Toronto for our Financial Community Meeting. I hope you enjoyed visiting our Square One store, which is our largest store in Canada at just over 160,000 square feet. I also want to extend a warm welcome to all of our online listeners this afternoon.

I am joined by other members of Target's executive team who will be speaking today, Tony Fisher, President of Target Canada; Kathee Tesija, Executive Vice President of Merchandising and Supply Chain; Casey Carl, President of Multichannel and Senior Vice President of the Enterprise Strategy; Jeff Jones; Executive Vice President and Chief Marketing Officer; and John Mulligan, Executive Vice President and Chief Financial Officer. While you are likely familiar with Kathee, John and me, for many of you this will be the first time you've heard from Tony, Casey and Jeff. I am very excited for them to share their retail expertise and Target perspective with you today and for you to see why I have such confidence in their leadership.

Following today's formal remarks, we'll have time for your questions. As a reminder, any forward-looking statements that we make this afternoon are subject to risks and uncertainties, the most important of which are described in our SEC filings. Finally, in today's remarks, we refer to adjusted earnings per share, which is a non-GAAP financial measure. Our 2012 annual report posted on our Investor Relations website includes a reconciliation to our GAAP results.

I am happy to be here with you today to talk about the actions we are taking to generate strong performance in this challenging environment, while innovating and evolving as an organization. To ensure we remain competitive in the consumer landscape and retail industry undergoing unprecedented change. This is the latest chapter, excuse me, this is the latest chapter in more than 50 years of history in which this company has driven strong performance while reinventing itself to remain relevant with our guests. In fact, about 10 years ago, after I arrived at Target, we went through a massive transformation. Until that point, Wal-Mart, K-Mart and Target were closely aligned in their strategic positioning. All three had grown beyond their home markets and were increasingly competing in overlapping trade areas.

Wal-Mart decided to focus primarily on supply chain, efficiency and delivering the lowest prices on very broad assortments. At Target, we chose to move beyond the price alone and focus on value by providing a more upscale, differentiated assortment in discretionary categories and a curated assortment of branded hard goods combined with a superior in-store experience and great prices. This new approach leveraged some of our core assets and our cultural DNA, including a department store heritage of fashion and trend merchandising, the ability to curate and edit assortments for our guests, expertise in global sourcing and a fast, fun and friendly team culture. Even though we were building on our strengths, this transformation required a big change in our culture and how we approached our core customers who became guests from that point forward.

Today, Target is facing a transformation of similar or even greater magnitude. Our guests' daily activities and shopping habits are converging in dramatically new ways. Technology is changing nearly every aspect of consumers' lives. Work, shopping, entertainment and communication are all happening simultaneously. This fundamental change in the way people live, research and shop presents a compelling opportunity to gain market share. We fully recognize that we live in a multichannel world and we are firmly committed to being a multichannel business. And given the ongoing backdrop of continued economic challenges and cautious consumer spending, gaining market share profitably has become more important than ever.

Today, we will share details that will demonstrate why I am confident that Target will thrive in this multichannel landscape by leveraging our core strengths and assets, building on strategies that are already working, developing new capabilities, changing our culture and how we interact with our guests and finding new ways to grow profitably. Although we are already well into this journey, there is a long road ahead. And consistent with our history, we are intently focused on performing while transforming thoughtfully managing our business and generating strong results today to fuel the changes we are making to ensure our success over time. As we evolve, we will continue to leverage our assets to compete in new ways and our most powerful assets continue to be our team and our stores.

The Target team has a proven track record of driving results while embracing change. This team has an outstanding ability to rally around priorities and treat every new goal as an opportunity to excel and has a deep and unwavering commitment to our guests. Our stores are also a key asset for Target. They are in convenient, profitable locations because we have been disciplined about closing and relocating stores when necessary. Because we have continued to invest in our stores, most recently with our PFresh remodel program, they are in better physical condition than they have ever been. And they offer a highly relevant assortment of wants and needs as we have continually evolved our assortment, layout and experience to meet changing guest preferences.

Behind the scenes we have invested in core assets that are key to our ability to provide value through a differentiated assortment. Our multi-faceted product design and development and sourcing capabilities, which have been developed over decades provide shorter lead times and the agility to respond quickly to changing trends and conditions. They allow Target to rapidly deliver high-quality products at a scale that drives down product costs. As a result, we offer a powerful combination of owned and exclusive brands. Like our stores, we are investing to build these brands and grow their penetration of sales over time. As we continue to leverage these assets, we inspect in-store and digital sales of owned and exclusive brands to continue to grow faster than our total sales.

Just as we plan to leverage key assets, we'll continue to pursue strategies that are sustaining our performance in a tough environment. Value is the essence of our Expect More. Pay Less. brand promise and today our value message is stronger than it's ever been. On nationally branded items, we continue to offer everyday pricing on par with the lowest priced competitors. And throughout our assortments, we offer additional ways for guests to save on top of our everyday pricing through the weekly circular in the U.S., known as the flyer here in Canada; cartwheel, our new online coupon portal; our print, online and holiday price match programs, which allow our guests to shop with confidence; and of course, our 5% REDcard and Pharmacy Rewards programs. When you add it all up, it's clear that Target offers unbeatable prices in the U.S. and now in Canada.

Convenience is also a core facet of our brand. And in today's environment, we are investing and innovating to provide enhanced convenience across channels. We are building online and mobile capabilities like lists and wayfinding, investing in PFresh remodels to allow our guests to do more in one store and flexing our format to reach urban guests with CityTarget. Fast, fun and friendly service is a key differentiator. Today, we are enhancing the level of service in our stores by training our teams to go beyond answering basic navigation questions to offering solutions. We are enabling this change by making investments in technology to equip the team to solve problems quickly. This is a major cultural change in our stores moving beyond an operational model to a service and sales orientation. We are punctuating this change by adding dedicated service to key areas in our stores, including beauty and baby.

Our designer strategy has long been the most visible part of the Expect More side of our brand promise. Beginning with our first partnership nearly 15 years ago, we have been wowing guests with access to high-end designs at unbelievable Target prices. Since then, we have continued to raise the bar bringing our collaborations to nearly every area of the store and getting the biggest names in fashion involved like Missoni, Jason Wu and Liberty of London. Many others have tried to copy us, but no one delivers these programs like we can. In addition, because we are known for delivering seasons like no one else, we'll continue to focus on providing guests with solution during key seasons like back-to-school and back-to-college and the upcoming holiday season.

Finally, we are focused on continuing this company's long history of operational discipline from in-stocks to seamless transitions to clean, bright, well-organized stores every hour of everyday. As John will discuss in more detail, this discipline, combined with a returns-based approach to investing and returning cash through dividends and share repurchase are the keys to delivering on our long-range financial goals. A theme you will hear throughout the day will center on developing new capabilities for a multichannel world. We know the importance of continually evolving to stay relevant and succeed.

As a result, we are engaged in a wide range of efforts to transform our business. We are working with a large group of merchants through MCX to develop a consumer-focused mobile wallet that's convenient, safe and widely accepted. We are tapping into new categories, like streaming entertainment with – like Target Ticket, which Casey will address later. Recognizing the importance guests place on faster web-to-home delivery, we are ensuring we have the right systems and processes in place that create capacity in our supply chain to enable more flexible fulfillment. We are investing in small, but strategic, acquisitions, like CHEFS Catalog, Cooking.com and DermStore, that augment our digital content and capabilities while giving us access to brands we can grow both online and in stores. And our merchandising and service enhancements will allow our stores to be even better at closing the sale, whether it occurs in the store or through the extended assortment we offer in our digital channels.

To offer these new capabilities our teams need to be flexible and quick to adapt to changing expectations. We are moving to a more rapid test-and-learn approach to innovation, in which we explicitly consider the trade-off between speed and perfection to drive change more rapidly. And we are building organizational agility to adjust quickly when needed. We are also becoming even more disciplined in prioritizing our investments in capital and expense, freeing up resources to invest in our most compelling opportunities. All of this goes hand-in-hand with having access to the right talent, both hiring – both through hiring and through collaboration.

We will accomplish this by: Hiring world-class talent with deep subject matter expertise to augment our capabilities throughout the company, in areas like technology, digital, supply chain, data analytics and loyalty; Leveraging our new Innovation Center in San Francisco which allows us greater access to the technology talent in that area; And accessing the talent of a broad spectrum of leading companies in all spaces to advance our ability to connect with guests.

We are developing relationships with organizations ranging from small startups to the world's biggest companies to bring leading edge capabilities to Target. Our recent collaboration with Facebook to develop Cartwheel is an excellent example. Ultimately, all of the objectives I have outlined must lead to profitable growth. In this rapidly changing environment, we are finding new ways to grow profitably.

For example, we are exploring new formats, such as CityTarget. Now that we have opened eight of these locations, we are learning from initial results to evaluate the opportunity to make this format even smaller. We are expanding our digital offering to reach guests in new ways. Digital sales, particularly in our higher margin discretionary categories are already growing much faster than our total sales and we expect that trend to continue well into the future. Beyond digital capabilities we are investing in flexible fulfillment, which presents a compelling growth opportunity to drive incremental sales through our existing store and distribution assets. And of course, as they mature, our newly opened Canadian stores will play a key role in our growth over the next five years. While initial sales in Canada have fallen well short of expectations, we remain very confident in the long-term potential of these assets. These are great locations in strong markets with demographics that are ideal for our strategy. And because we have invested to completely renovate them, these locations are outstanding physical assets as well. Given these strengths and the tactics we will deploy to drive shopping frequency, I am confident that we will reach our long range financial goals in our Canadian Segment. Tony and John will share additional details on our strategic, operational and financial plans for the Canadian Segment.

While the time, strategy and tactics are different, this company has successfully transformed before and we will again. We will succeed in this multichannel transformation because we are leveraging what is already in our DNA: A strong focus on the guest; An ability to differentiate in smart ways that create excitement and provide value; Expertise in curating assortments to combine the best national brands with a unique assortment of high quality owned and exclusive brands; Disciplined in both execution of our strategy and our investment decisions; And a smart, agile team that is focused on success. With these foundational strengths and an organizational commitment to innovation and learning, we are confident in our future and excited about our prospects in 2014 and beyond.

Now, the rest of the team that has joined me here today will share additional details about these future plans. To get us started, Tony Fisher will provide an update and early insights from our Canada market entry. Tony?

Tony Fisher - President, Target Canada

There have been many exciting changes in our company since I started as a business analyst in January of 1999. Back then, we had about 900 stores across the continental U.S. We were just launching our online strategy and we had not yet reached Alaska and Hawaii. Since then, we have nearly doubled our store count. Dot-com and mobile are vital parts of our business. And with expanded Target’s reach across the United States and beyond and it’s the beyond that I will focus on today.

Our expansion into Canada began with a once-in-a-lifetime opportunity for Target. We have been eyeing this market for years and knew it offered a powerful match for our strategy and great growth potential for our business. So when presented with the chance to acquire the Zellers leasehold interests, we moved quickly, because these are great locations in dense, urban areas and this was the best opportunity to access these hard-to-come-by sites and achieve a nationwide presence in record time. And in just a few weeks we will complete our first full year of this international expansion of unprecedented scope and speed.

As you can see on this map, our final cycle will open stores in nine out of 10 provinces. When complete, this will give us 124 stores across all 10 provinces. To put that into perspective, it took us almost 50 years to establish a nationwide presence across the U.S. And we will have achieved a coast-to-coast expansion here in less than three years. 2013 has been a year of milestones, learnings and challenges for the Target Canada team. And while sales are below our initial expectations, our progress to date gives me a tremendous amount of confidence in our ability to meet our long-term goal of $6 billion dollars in annual sales by 2017.

It's fairly typical for international retail expansions to start from a lower sales baseline than what we see in the U.S., where first year sales can be equally difficult to predict compared to fifth year projections. But we have a strong plan in place to continue driving improvement. And as John will share in more detail shortly, we are poised to generate a steeper maturity curves necessary to reach our 2017 goal. Since January 2011, we have developed and implemented plans to remodel 124 buildings, turning them into brand-new Target stores. We have hired a talented team of nearly 20,000 people nationwide. And to drive quick progress on our ambitious timeline, we entered into new distribution, grocery and technology partnerships so that we could meet our regulatory, compliance, dual-language and currency requirements on time.

As we lay the foundation for Target Canada, we are also leveraging the core strengths of our U.S. business whenever possible. That includes a focus on inspiring, well-designed and well-organized stores, as you saw this morning at Square One Mall. And we are right on track to have all 124 stores LEED certified, making Target the first retailer of our size and scale anywhere in the world to achieve 100% certification on this volume of stores in a single country. We are getting good input from our guests, and we continue to believe that core Target attributes, such as great service; a superior shopping experience; inspiring and differentiated merchandise; and exceptional value will resonate over the long-term in this market.

We have been especially successful in Home and Apparel. Our earliest research showed that we had an opportunity to stand out in these high margin categories, and that's been confirmed by our results to-date. Guests are responding favorably to Target owned brands, our designer partnerships, and unique-to-Canada collaborations with Roots and Beaver Canoe. And already, in the short time we have been here, numerous internal and external studies show we are extremely competitive with the lowest cost leaders in the market. And in many cases we are beating them on price. But we knew there would be things we would have to improve on throughout the year, namely: In-stocks and supply chain; Technology and tools; Driving frequency and changing guests' shopping habits; and price perception.

Since opening, in-stocks have been and remain our number one challenge and our number one opportunity. We started our market entry facing a significant learning curve in this area, with new-to-Target systems and processes, thousands of brand new team members and zero sales history. So even though we have improved our soft opening in-stock performance with each cycle, we are not yet where we need to be in run state and we are diving into diagnose root causes and rollout a whole range of improvements.

The most important thing here is to quickly build our sales history and learn about our guests' shopping habits, which is foundational to driving strong in-stocks. We are simplifying processes and improving replenishment practices at our stores, things we take for granted after 50 years in the U.S. to help us operate more efficiently and strengthen our presentation. For instance, in July, we rolled out important receiving process improvements, which cut the amount of time it takes to check-in a trailer at a store from about 25 minutes to less than two minutes and it's more accurate. And systematic replenishment in store, which we are now unveiling nationwide, has shown promising results in pilot stores getting merchandise out of the backroom quickly and onto the sales floor.

Our stores, merchandising team, vendors and sourcing offices are working together to improve our ordering practices. And we are doing whatever it takes to clear excess merchandise out of our supply chain, so we can more efficiently and correctly flow product from our distribution centers to our stores. A key part of this work is getting more familiar with and efficient in the use of our technology and tools. To stick to our timeline, we decided to build and integrate an entirely new technology infrastructure with best-in-class packaged solutions from Retalix, JDA, SAP and WMS. We chose these solutions in part, because they allowed us to start with a very narrow scope ensuring speed to market, but they also gave us the flexibility to rapidly add enhancements based on what we are learning now that we are opening and operating stores.

Now, our team is getting better everyday at interacting with this new technology. And we are quickly executing hundreds of fixes to make this suite of systems even easier for our team members to use. We are also taking steps to highlight the full breadth of our offering to change longstanding shopping habits. To win over time, we must continue giving guests something they can't get anywhere else, as we have done and will continue doing in home and apparel, while also increasing our share of sales in frequency categories like grocery, commodities and health and beauty. This requires us to redefine the perception of what a trip to Target means so we can fundamentally change habits in a market, where consumers are accustomed to visiting many different competitors to accomplish all of their shopping.

We have had success in this area before. About a decade ago in the United States, Target was doing very well in home and apparel, but we needed to drive traffic, sales and profitability across the store. So we launched a frequency strategy designed to emphasize the extensive breadth of our offering and Target's tremendous value. And over time, we shifted Target's position in the minds of our guests from being a place for discretionary purchases to being a preferred one-stop destination for all of their wants and needs. This experience is guiding our efforts in Canada, where we are using our most powerful marketing vehicles to share Target's compelling frequency and value story. And it is essential during the startup period to continue influencing price perception. This is a challenge for American retailers in general and Target is no exception.

We see significant upside here too, because when you factor in our comparison shopping and competitive everyday prices, our price match guarantee and 5% rewards, our prices are unbeatable. How many times did you hear unbeatable prices today by the way? At least a half a dozen times, I hope so, because it's true. So to change this misperception, we are emphasizing the Pay Less. portion of our brand promise explaining to our guests that they can have beautiful stores, great service, short checkout lines and trend right merchandise without having to pay more.

We are still early in these efforts, but we are intently focused on reinforcing these messages with our weekly flyer, new-store specials, in-store flyer and Weekly Wows campaign, which we have extended to print, digital and radio compared to a flyer-only approach in the United States. And the holiday campaign we designed specifically for Canada will aggressively showcase Target's value proposition and our role as a truly unique one-stop shopping destination.

As we prepared for our market entry, our competitors raised their game, as expected taking steps to challenge Target and highlight their own strengths. Mergers are creating larger and more formidable grocery and pharmacy rivals and numerous competitors are investing in their facilities and bolstering their loyalty programs. All of this is good for the consumer and it's something Target embraces as well. We have gone head-to-head with the best in the U.S. and succeeded. We are eager to do the same in Canada and confident in our ability to become a favorite among Canadian consumers. So while we are not satisfied with initial results, we are firmly committed to building on what's worked and fixing what hasn't.

The fourth quarter presents an excellent opportunity to introduce ourselves to Canadians on a large scale, including to many who have not already visited one of our stores. So our entire team is laser-focused on preparations for a strong holiday performance and we are determined to finish our grand opening year on a high note, but we do have to be realistic. There will be more learnings and more opportunities as we continue to establish ourselves in the Canada market and as we develop more predictable sales patterns by store. But as focused as we are as on improving our near-term performance, we are equally focused on ensuring that we leverage all of our assets in building a strong foundation for the long-term.

If 2013 can be described as record-setting from a store opening perspective, 2014 will be a year of improvement as we rollout additional capabilities to improve in-stocks, productivity, pricing and merchandising strategies. Specifically, in-lane REDcard enrollment; site level pricing; markdown optimization; business intelligence and analytics; automated distribution center receiving; and in-stock diagnostics are among the many core tools of our U.S. businesses we are adapting for Canada.

We are excited about what we have accomplished in preparing for and executing this international expansion. I am so proud of our Canadian team for their tireless effort, sacrifice and commitment. We are all intently focused on continuous improvement and we are determined to deliver significantly improved financial results in 2014 and beyond. And when I look at the enhancements we are making and the experience our team is gaining each day, I am very optimistic that Target Canada will play a significant role in

Target's future and will achieve our goal of $6 billion in sales and $0.80 in earnings per share in 2017.

Now, I'll turn it over to Kathee Tesija who will give our merchandising update.

Kathee Tesija - Executive Vice President, Merchandising and Supply Chain

In today's era of communicating in 140 characters, you can communicate Target's guiding principle or guiding strategy in just four words, Expect More. Pay Less. We first made this brand promise to our guests almost 20 years ago, but the statement endures because how we deliver on these multiple priorities is constantly evolving. In terms of Expect More, we are never done. The bar only rises higher and higher. So we must be relentless in devising new ways to exceed our guests' changing expectations for convenience, quality and value. Pay Less is achieved by rigorous discipline and innovation in sourcing operations and supply chain and being hypercompetitive by optimizing price investments to drive profitable market share growth.

Our core business is solid, but we are not standing still. Innovation and differentiation are the lifeblood of our organization. Our guests have lots of choices to shop for their wants and needs. But each week, more than 30 million guests come to our stores and 20 million visit our site, because they know they will find what they need and also something new, something special every visit. As you heard from Gregg, Target's transformation is not a linear journey. We are focused on performing while transforming. We are defining the strategies that are working today. And simultaneously, we are testing, learning and developing new and next level capabilities from our supply chain to service standards to new products and solutions that will allow us to achieve profitable sales growth well into the future.

So let's start with what's sustaining our current performance. Overall, traffic across the industry has been soft. Many of our guests are consolidating trips shopping less frequently, but buying more when they do shop. Our lower and middle income guests have seen negative income growth and are cutting trips altogether. During the past five years, we have invested more than $3 billion remodeling almost 1,100 general merchandise stores. They not only look better than ever, but the assortment is more relevant as we have made bigger statements in frequency categories like grocery, beauty and essentials. And over the next few years, we are planning a phased approach to refresh the majority of our remaining lower volume stores. We have optimized the store layout, assortment and the overall experience. And we are continuing to implement loyalty and differentiation strategies to drive incremental sales and encourage our guests to get more done in every visit.

This year we have seen strong growth in our key loyalty programs. Penetration for our most powerful tool, REDcard Rewards recently topped 20%. REDcard guests shop twice as often as non-REDcard holders and spend twice as much. And we are confident this trend will continue as our year ahead Kansas City test market recently surpassed 25%. Pharmacy Rewards penetration is up 50% over last year. These guests are also shopping more frequently and more departments. And we are seeing them use the 5% discounts they earn for filling prescriptions for big purchases and stock-up trips. REDcard and Pharmacy Rewards are even more powerful together.

When our guests are enrolled in both, they spend more than four times as much as an average guest over the course of the year. These programs, along with Cartwheel, are just a part of a more holistic approach we are taking across the enterprise to grow greater guest loyalty. It’s a strategy built on forming closer, more personal relationships with our guests based not on transactions, but products and experiences that provide real value that connects them to Target in ways that they find most relevant. And you will see more of this thinking throughout the day as we talk about the ways Target is further reinventing the in-store experience in key categories. We are bridging our digital channels and registries and rolling out new solutions like our subscription service for diapers and other baby essentials.

Another important facet of Target's unique value proposition is our portfolio of owned, exclusive and designer brands, really the hallmark of our differentiation strategy. Today, we are operating in a world of almost total price transparency. With pure-play operators and online deal aggregators creating margin pressure by turning national brands into commodities, it's essential that our owned and exclusive products continue to set us apart. These brands burnish Target's reputation as a destination for high-quality, trend-right merchandise. They are also incredibly important to our overall financial performance, representing about a third of our total sales and nearly half of our profit. We now have 10 brands that each generate more than $1 billion in sales annually.

We invest in these brands and manage them with fierce adherence to the unique brand principles that define them. These brands offer guests the elevated quality they would find at a specialty store, but at a significantly lower price point. To achieve this, we have built a globally aligned in-house sourcing operation and product design and development team that gives us significant leverage in terms of cost, speed, scale, and quality control. Though these teams literally work around the world, they function as a single organization. This unique structure gives us significant flexibility to react quickly when business conditions shift. While these competitive advantages are helping drive performance and continuous improvement across all of our owned and exclusive brands, I'd like to focus today on three.

Let's start with threshold. A year ago, we introduced this brand to replace our largest owned brand, Target Home. Aesthetically, the product is on par with premium home brands, but the mid-level price point is compelling guests to consistently trade up for better value. This strategy is driving increases in average retail and basket size and helping offset softer traffic. In grocery, we are making a big statement with wellness, naturals and organics. This is no longer a niche market. Our guests want convenience and value, but they also want healthier options. So this summer, we introduced Simply Balanced. This new brand is made with simple, healthy ingredients and makes eating well affordable without having to compromise on taste. The brand will debut in Canada next year.

Overall, our wellness, naturals and organics assortment is growing twice as fast as the industry. And we expect this aggressive growth to continue as guest demand for healthy choices from baby food to cleaning products continues to increase. This demand is not limited to food and household products though. During the past 10 years, our C9 by Champion brand has earned outsized share with adults and kids in active wear, the fastest growing category in the apparel industry. And we are continuing to invest in this brand, adding space in our stores and growing the product mix across channels, particularly in women's to introduce more items for yoga and running. We are also introducing plus size online and have maternity items that are in development.

Another key element of Target's differentiation strategy is our collaboration with the fashion industry's most revered designers on limited time collections. While many competitors have followed our lead, our technical and sourcing capabilities, as well as our collaborative approach to partnerships distinguish our model and allow us to reach a broader range of categories. Our in-house teams are expert at bringing our partners' vision and ideas to scale at unbelievable price points. Last month's debut of our Philip Lim collection made a huge impression at New York Fashion Week and with our guests.

Next up is London design house Peter Pilotto's collection of women's apparel, accessories and swimwear, which debuts in February. In a first for Target, we are partnering with online luxury retailer Net-a-Porter to offer a curated assortment of the collection on their site worldwide. Put together, all of these strategies are sustaining our current performance. But to win in the future, we need to provide more integrated solutions and enhanced service for busy, time-pressured guests. As a result, we are thinking differently about how we deliver our shopping experience that's easy and inspirational for our guests and profitable for Target.

So we are exploring ways to elevate the experience in categories across the store. We are engaging a wide range of tests in markets across the country, which was set in select stores now through the first quarter of 2014. These tests range from toys, where we are looking to enhance the sense of discovery to apparel where we are adding mannequins to bring our designs to life. Our guests significantly over-index in pet ownership. So we have introduced fresh food and new fixtures to our pet area. New signs create distinct worlds for cats and dogs and draw a closer association with grocery. We are also rolling out tests in key categories, where the choices can be daunting and there is a huge opportunity to integrate new technology and specialized service to the in-store experience.

In baby, for example, new parents have more than 30 categories to research and understand when preparing a registry. The more Target can engage and inform and offer true solutions, the better chance we have to earn the right to become their trusted partner for their first baby and every first that follows. So in July, we began testing a new experience in our baby department in the Chicago market. This test involves the integration of an enhanced layout, technology, content and service to help our guests find solutions efficiently. While results are still preliminary, we are seeing strong comp growth in these test stores. Guests tell us the department has never felt more stylish and inviting. And in these stores, registry creation is up significantly.

In beauty, we are rolling out more contemporary fixtures in 2014 with lighting, signing and graphics to give the department an even more upscale look and feel. And like baby, we have introduced what we call the Beauty Concierge, a specially trained advisor that offers tips, information and advice agnostic of brand. We have these team members in more than 200 stores and that number will double by early 2014.

In electronics and entertainment, our response to showrooming is to create an even better showroom with aisles that extend directly to Target.com. This category is loaded with big ticket items. I am sorry, in electronics and entertainment it's an area that's loaded with big ticket items, the products are highly researched and the technology is always changing. So this month, in a few stores, we began testing a new layout focused on exploration and discovery. We have added a service desk to help guests with questions. And we have literally taken products out of the box and we are encouraging guests to play with them. We'll evaluate results from these test stores to determine future rollout plans. Beyond the in-store experience, we are investing heavily in a more guest-centric end-to-end supply chain to deliver exactly what our guests want exactly when they want it. In a few minutes, Casey Carl will talk about our recent work in flexible fulfillment, but our work in improving supply chain efficiency goes much deeper.

Total U.S. supply chain is a complex network of distribution and fulfillment centers, import warehouses and of course, our almost 1,800 stores. Last year, we moved more than a billion cartons of product through the system. Given that scale, constantly optimizing our planning and operations brings tremendous advantages. So we are investing to create distribution capacity through automation. In April, we opened the first of three next-generation automated food distribution centers. And next year, we will begin introducing new technology to enhance speed and flexibility at our regional distribution centers. Altogether, these investments will do one thing. They will move more product to more guests in less time without the need to build additional distribution facilities. These supply chain improvements are also key to building out our segmentation capabilities. 10 years ago, shopping Target was fairly uniform just as our guests wanted it, every store felt like My Target. But as our guests' preferences evolved so has our strategy.

We have made significant investments in data and technology and developed segmentation strategies for a broad set of attributes. We now have the capacity to customize the assortment in literally every store. In fact, during the last five years, we have reduced the number of SKUs in the average store, but tripled the number of unique planograms to more than 375,000. The key is making sure we have the right assortment in the right stores at the right time presented in the right way. Take snack chips, by figuring out the right mix of regional brands for every store, we have been able to increase sales by tens of millions of dollars over the last two years.

So now that I have provided a snapshot of our ongoing strategies, I'd also like to give you some of our plans for holiday, a sneak-peek. From our perspective, the key to winning is driving profitable sales, creating loyalty and growing lasting market share. Given the economic headwinds, we expect that guests will stick closely to their budgets they will consolidate trips, aggressively comparison shop and buy more on sale. So we'll start this year by assuring guests they can shop with confidence all season long by heavily promoting our total value proposition, including our Holiday Price Match Guarantee, 5% REDcard Rewards, free shipping with REDcard and easy returns. When you put them all together, this is the best value in retail.

And while it's still too early to show our entire hand, I can give you a sneak-peek at our approach. Starting Thanksgiving week, we'll offer 15 online-only deals everyday for two weeks. To drive more consistent traffic throughout the season, we are adding space in our Weekly Ad in frequency categories. We are comp shopping more than 100,000 items in-store and online to make sure our prices are compelling and also extending the timeframe of our price match policy. Two days in advance of Thanksgiving, REDcard guests will get a head start on more than 30 special deals on Target.com and hundreds of additional Black Friday deals will be available online starting Thanksgiving Day.

Throughout the season, our merchandise assortment is designed to inspire from entertaining to decorating to gifts giving. Our guests want gifting to be easy, but they are not willing to sacrifice high-quality or great value. So we are leading in home with threshold and a beautiful assortment of three distinct décor trends made to mix and match. We will also be highly competitive on all the hottest national brands, including must-have Xbox and PlayStation game consoles; Target-exclusives on high-end kitchen items from Vitamix and Nespresso; and of course, great deals on top toys. Beyond great prices on toys, more than 20% of our toys assortment will consist of

Target exclusives from leading brands like Disney, LeapFrog, Hasbro, Lego and Mattel.

In closing, we are confident in the strategies that are sustaining today’s performance, though we are anything but contempt. We are operating in the most dynamic retail environment since the dawn of discount, but that pressure is keeping us sharp. Our teams thrive on this kind of environment as it requires working in a perpetual state of evolution and making good on a promise that has come to define our brand, delight our guests, and deliver for our shareholders.

Thank you. And I’d now like to introduce Casey Carl, President of Multichannel and SVP of Enterprise Strategy.

Casey Carl - President, Multichannel and Senior Vice President, Enterprise Strategy

Thank you, Kathee. I am so excited to be here. 2013 has been a big year in advancing Target’s multichannel agenda. And I am proud to share some of the things we are doing to continue to remain relevant to our guests, to be competitive in the marketplace and to drive profitable sales growth for Target.

In my role as President of Multichannel and Senior Vice President of Enterprise Strategy, I oversee Target’s strategic roadmap for the future, Target.com and mobile businesses and our recent e-commerce acquisitions. It’s a critical role given the growing importance of digital to retail in general and to Target specifically. The world is changing more rapidly than ever and the rate of change will only continue to accelerate.

To remain competitive and relevant to our guests, Target is transforming our business to more seamlessly deliver solutions that our guests want, simply, quickly and uniquely Target. We are embracing digital technology to create amazing experiences online, in mobile and in our stores. And we are testing, iterating, partnering and learning to increase our speed to market and give guests more of what they want, faster. We are confident what will guide us through this change are the very things that have contributed to our success. First, our unrelenting focus on our guests, including understanding what drives them, knowing what challenges they face, anticipating simple solutions and inspiring them. And second, our Expect More. Pay Less. brand promise which is our unwavering and long-held commitment to great products, brands and services that add up to an amazing guest experience delivered at an outstanding value.

Digital plays a significant role in our transformation. It goes well beyond having Target.com as a great selling channel, that's become table stakes. Digital will be a core competency, infused into everything that we do, including our strategic decisions, our investments and the talent that we hire. In fact, in the last nine months, we have hired a number of external leaders that we are confident will be outstanding additions to our Target.com and mobile team. These executives are filling key roles and have strong digital experience from Gilt, Amazon, Hayneedle, Gap, Estee Lauder and several other leading digital companies.

In addition to building our talent base, we continue to strengthen our core digital capabilities. Target.com consistently ranks in the top 10 for retailer site availability and performance. Plus, we have seen significant increases in traffic and conversion, especially in mobile. We are continuing our focus on conversion by investing in speed, search relevancy, product information and guest checkout. Beyond our site capabilities, we are expanding our online assortment. And within a month's time, our entire store assortment, including grocery will be viewable online. And while not all of the items will be available to order online, guests will have complete visibility to both our online or in-store assortments. And this is foundational as we rollout our store pickup service nationwide, which I will talk about in more detail in a few minutes.

As Kathee mentioned earlier, newness and differentiation are the lifeblood of Target. So we will continue to invest in new and unique product categories.

For example, in May, we launched Tevolio, our online exclusive and budget-friendly bridal collection. This new collection performed well during the heavy bridal season, so well in fact that we will expand the line in spring of 2014 to include shoes, handbags, fine jewelry and women's and men's accessories. As we look to what's next for our digital platforms, we plan to aggressively and strategically grow our online assortments even more to give guests more products and choices.

Our recent strategic acquisitions of CHEFS Catalog, Cooking.com and DermStore.com help us do that by adding prestige brands and rich, meaningful content in categories that matter most to our guests. We'll continue to operate these businesses independently of Target to preserve what makes these brands unique, but we'll also explore the ways to bring them the very best of Target, including our size and our scale. Most immediately, we'll pursue ways to drive traffic and ultimately sales between these platforms and Target.com. By early next year, we will integrate CHEFS and Cooking.com into our registry experience. This holiday, we will begin carrying CHEFS' private label, which is already selling in Cooking.com on our site. And next spring, we will carry the product line in our stores. Also this holiday, we will create brand portals for CHEFS, Cooking and for DermStore.com on our Target.com site.

Guests who shop on this Target are the same guests who shop DermStore.com, CHEFS Catalog and Cooking.com. And now they will have access to highend brands, rich content including how-to videos through one Target.com experience. While we are expanding what we offer our guests, we are also expanding where we bring Target to our guests.

Late last year, we partnered with eBay to test Target SKUs via eBay's marketplace. And what started out as 150 SKUs will grow to 100,000 by this holiday. Now this represents a new revenue stream for Target and it introduces a new guest base which is predominantly men to our brand. In the coming year, we will continue to explore expanding our presence and brands through other marketplaces. The Target guest is tech-savvy, timepressed and always on the go, which explains why our guests' mobile usage is 7 to 8 percentage points higher than average users. That's why we are investing significantly in new mobile capabilities. Mobile is the bridge between the online and physical worlds. It gives guests access to the entire Target universe in the palm of their hand.

According to a recent Deloitte study: 83% of shoppers use their mobile devices while in stores; And smartphone shoppers are 14% more likely to purchase in store and that percentage more than doubles if they use the retailer's site or mobile app. So we are amplifying the in-store mobile experience. Last year, we set the foundation by enabling free guest Wi-Fi in all of our stores. Not surprisingly, Target.com is the number one visited site on our network, whether via mobile web or our mobile app. Guests are leveraging their mobile devices as a shopping companion, to help with their planning, their list making, their deal finding and so much more. So we are now building them now an even better companion, rolling out new capabilities this year, including local item search, smart shopping lists, better navigation, personalized offers and much more.

Next year, we expect to rollout the mobile wallet through the Merchant Customer Exchange, or MCX. MCX now includes more than 20 of the National Retail Federation's top 100 merchants by revenue, which process more than $1 trillion in payments each year. Because our guests are increasingly mobile, we are ensuring our team members have access to the same digital experience and tools. By putting more devices in the hands of our team members, they can provide even greater service. This allows them to research products, to look up ratings and reviews, and even place guest orders on Target.com.

Now one of our most exciting digital ventures this year has been Cartwheel, which we launched in May. A first-of-its-kind social savings experience developed in partnership with Facebook, Cartwheel allows guests to save on thousands of items throughout out the store. They can choose and customize offers that are most relevant to them and then share their offers with their social network to save even more. Now the response to Cartwheel has been absolutely amazing. There are currently more than 2 million users, with 82% accessing Cartwheel only through their mobile devices. And overall, guests have already saved more than $10 million. Incredibly, Cartwheel is being downloaded and used at the rate of a hot new gaming app, but its being repeatedly used as part of the guests' shopping journey at the rate of a great utility app, like your weather app.

In fact, our partners at Facebook have told us the engagement statistics on Cartwheel are among the best they have even seen of any app in beta stage both within and outside of the retail space. Now this is absolutely the best of both worlds. And the data tells us that Cartwheel is clearly becoming a vital piece of our guests' shopping journey. What's more, the top-redeemed products are grocery and owned-brand items, contributing to a meaningful lift in owned brand sales since the launch of Cartwheel. We expect to see an even greater lift this holiday season, when Cartwheel is projected to do more than $65 million in promotional sales.

Encouraged by Cartwheel's success, we continue to make enhancements. This month, we integrated Cartwheel within our Target mobile app so that guests can see items that are available with Cartwheel offers as they are building their shopping lists. Also based on guest feedback, we have added a secondary log-on option via an authorized Target.com account. Beyond giants like Facebook, we are tapping into amazing talent in the broader digital community. Earlier this spring we launched a Retail Accelerator in partnership with Fast Company. The challenge, build a mobile shopping experience that wows guests and caters to their needs. The winner was Divvy for Target, picked from more than 75 submissions. The app, which launches in a few months, removes the inconveniences of group shopping. It provides the ability to build and share lists, to split your bill, to get an electronic copy of the receipt, to see transaction history and to earn rewards. It's ideal for new college roommates or for groups going in on a wedding gift.

Entertainment, which for us is music, movies and books has always been an important category for our guests. And it's an area where we have really strong market share. Our guests told us that they want to be able to consume our media in all channels. So five weeks ago, we launched Target Ticket, a digital entertainment service with more than 30,000 TV and movie titles for purchase or for rental. Because our guest is family-focused, we partnered with Common Sense Media to create a differentiated experience with best-in-class parental controls. Also Target Ticket guests will enjoy bonus content offered exclusively at Target, which includes extra scenes, behind-the-scenes footage and special cuts.

The trend from physical to online media is evidence that guests want to shop on their own terms. And they are increasingly demanding when and how they shop. Fulfillment is a key battleground for all retailers and its one of the areas where we can drive the most growth. Through a more integrated supply chain that leverages our existing assets, including our network of 37 distribution facilities and our 1,800 stores, we can get products to guests faster, easier and cheaper. For Target, it means increased traffic and sales across all channels and significant savings. By taking advantage of the inventory across our network of stores, we'll be able to send guests product faster, move product more quickly and help reduce markdowns and lower shipping expenses.

Our Store Pickup service will be available in all U.S. stores by this holiday. Initial results are encouraging. In less than a month without all of our stores live we have taken over 30,000 orders for Store Pickup and that's without any marketing. Next year, we plan to test and roll out several more fulfillment services, including web-only items available for in-store pick-up and shipping from stores to our guests. It's natural for guests to shop Target.com and to visit store – our stores because it's a trip that they love making. So as guests look for safe, secure and convenient ways to get product, we will explore other opportunities to leverage our supply chain capabilities. Most immediately, we are exploring possibilities of using our stores as pick-up centers for CHEFS Catalog, Cooking.com and

DermStore.com orders. In addition, we are piloting programs with Google Express and eBay Now as well as investing in our own capabilities and our continued quest to bring Target to guests on their terms.

Innovation has always been a signature strength of Target and we are continuing on that legacy, developing more innovative capabilities to help see better around the corner. We have teams focused on incremental innovation in our core businesses. For example, during this fall's back-to-school season, we prototyped an app for teachers to create their student supply lists. The app incorporated feedback from Minneapolis school teachers and classroom families. And the test was so successful that we are incorporating it into our back-to-school plans for next year. We are also exploring disruptive innovation through new and emerging technologies. Teams, including those in our San Francisco office, are playing around with augmented reality and location-based technology to offer a richer experience and more personalized offers to our guests.

Now this is just a sampling of some of the activities that we are doing across all of our businesses to deliver on our multichannel agenda and to position Target to win. In this era of unprecedented change, we are thrilled by the possibilities. In 2014, we will build on the strong momentum we have created this year. Digital will be a part of everything that we do. We will continue to aggressively and strategically invest in digital commerce, technology capabilities and digital talent. And our investment will reflect our intent to be a dominant leader in the space. So thank you.

And now, I have the distinct pleasure of welcoming Target's Chief Marketing Officer Jeff Jones, who is going to talk about the role marketing will play in the future success of Target.

Jeff Jones - Executive Vice President and Chief Marketing Officer

Alright the last guy before Mr. Mulligan. Thank you. I have been at Target about a year and a half now, and there is no question that every single day we are racing to meet the ever changing guest needs. But even as we evolve, at its core, our role in marketing remains the same. We have to create guests and drive profitable growth, and we think about doing that in three ways: By driving traffic to one of our assets; By deepening engagement with our guests; And by strengthening our guests love for our brand.

I am happy to be here today to give you a look at all the shifts underway that help us accomplish these things, as well as to provide a snapshot of holiday and three new initiatives that we will launch in 2014. Over the years, we have developed some really powerful assets that serve as a strong foundation for Target: an Expect More. Pay Less. brand promise that's as relevant in today's multichannel world as when it was written nearly two decades ago, a culture with innovation at its core and maybe most importantly, a guest base that absolutely loves this brand.

Target is a force when it comes to traditional advertising and that will absolutely continue. But with the pace of change in our industry and how consumers are integrating technology into every facet of their lives, the way we connect has to change. Today's consumer expects meaningful connections, especially in digital and social channels and that's where they spend a disproportionate amount of their time. The phrase actually even seems trite to say, but we have to connect with them whenever, wherever and however they want.

Achieving this in terms of strategy, organization, capabilities even our creative approach requires new thinking and much more than traditional advertising. First, and this is foundational, we have to protect the creative ethos that's defined our differentiation and guided our marketing communication for decades. This tonality, this attitude has helped create a coveted brand, but alone, it's insufficient in today's world. We have added to that foundation a marketing team that's digitally savvy, guided by guest insight and focused on maintaining a balance between big human ideas and algorithmic answers.

We have made enormous leaps socially through strategic partnerships with Facebook, Twitter and Pinterest. Together, we are deepening in guest engagement harnessing the voice of the guest to work on our behalf and in the case of Rich Pins and Cartwheel actually driving traffic and commerce. We are deepening our capabilities in areas of direct and loyalty marketing. Micro-segmented approaches, greater personalization and building on our tremendous success with the REDcard give us great confidence in our ability to tap into the lifetime value of our guest.

Winning today requires unprecedented adaptability and openness to change. Experimenting is absolutely essential. We have got to do what works as long as it works, while at the same time finding out what's next. And in partnership with Casey's team, we will continue to explore ways to streamline the path to purchase through mobile and emerging technologies. Now, if you add all these up, accountability, data, new tools and capabilities, experimentation, you will see a sum that's bigger than its parts. The result is an acceleration of the effectiveness of our marketing investment ultimately doing more with each dollar to drive our results. And while you have clearly heard we are not satisfied with current business performance, we are very happy with the progress we are making and the improved effectiveness we see across our marketing channels.

Now, let me take a step back for a second and talk about the state of the Target brand and what's happening with our guest. Our brand is among the strongest in North America, Apple, Starbucks, Nike, but we can't take that for granted. We carefully monitor our brand through three independent quantitative measures that look at differentiation, affinity, guest-satisfaction level, among many other things. We also know that while we have remained strong, our competitors have gained significant ground, some by pushing extreme value positioning like clubs and dollar stores. Others have completely redefined consumer expectations with market changing innovations. Part of our answer is what we are sharing with you today. But more broadly, it's about continuing to reinvent aspects of the Target experience, whether that's in store, online or both. More than ever, a great experience and a strong brand are inseparable.

Let me turn now to our guest. I mentioned earlier that we are leveraging data to deeply understand our guest and that information is shaping our work, not only in marketing, but across the enterprise. Historically, as most of you know, we have talked about our core guest as mom, but obviously, it's more complex than that. Today, we understand more clearly than ever that our sweet spot is the attitudinal convergence of consumers who love to shop, consumers who use technology and consumers who are deal conscious. It is within this intersection, where Target indexes significantly above our competitors. It's this digitally connected, time-pressured, savvy mom that's our strategic target. But our core guest isn't mom alone. Families are being redefined. More and more, both parents share household responsibilities, including the shopping. And parents are involving their kids in decisions from what to eat to dinner to where to go on vacation. So involving them in shopping decisions is just part of their routine. And when it comes to this group, young families and where they prefer to shop, no one in our competitive set ranks higher than Target. And all of these characteristics become more sharply focused as we look specifically at Millenials and Hispanics, who we know have even higher affinity for the Target brand.

We are starting from a huge position of strength with these guests. This is important not only because of the significance in their buying power, but because many of them are now or will soon become young families. Our challenge is to eliminate barriers and inspire them to shop at Target, which is exactly what many of the initiatives you have heard about from Kathee and Casey are designed to do.

In terms of marketing communications, let me share a little bit about a few big initiatives underway for 2014. And let me start with essentials. You may have seen the 2013 grocery and essentials campaign, which brought fashion and fun to frequency in a way only Target could. It's one of the most recognized advertising campaigns in our history. It broke lots of new ground socially with the Tweet-to-Runway program. And it drove a meaningful increase in trips among our already most frequent guests. For 2014, the essentials work will tackle the different challenge. It will inspire guests to think if Target as their everyday shopping place rather than just for stock-up trips.

To do this, we will tap into the cultural truth about the Target Run, which was common language used socially among our guests and will prominently feature our hand shopping basket as an icon for quick and easy trips. The campaign will feature our great national and exclusive owned brands and boldly display their prices in the appropriate channels. Of course, when you combine all the competitive shopping we do with Price Match Guarantee and REDCard 5% savings, we think this campaign will demonstrate how unbeatable our prices are and remind people again and again and again why they prefer and love shopping at Target.

On the flipside of essentials is style, a critical differentiator for our brand that reaches across beauty, apparel, accessories and home. Our current style marketing work hints at where we are headed. More holistic, real-time content and stories leveraged across mass-reach and social channels. The focus is on relevance through newness, which was so important when it comes to style and proving our Expect More. Pay Less. brand promise.

A few weeks ago, we broke this campaign. It all started with a live Fashion Week event attended by influencers and bloggers who captured content that was embargoed. Nine days later, we broke the work during the Emmy Awards. We debut our broadcast spots, which used footage from Fashion Week events, while the influencers released their content across social platforms and important style blogs. Additionally, we augmented our own social teams with content experts from Facebook and Twitter. They worked side-by-side with us to ensure we were optimizing content in real-time based on engagement across the platforms. And we saw incredibly strong results: Four times, the normal engagement rate across social channels and the trend has continued. Engagement rates today on style social content are still up about 80%.

Let me switch gears now. A third 2014 focus I'll share is a look at corporate social responsibility work. Our guests increasingly expect the companies with whom they do business to also do good to be socially responsible. In fact, an Edelman Survey showed 87% of global consumers believe business should place equal weight on social and business issues. And according to Forbes, close to 60% of consumers would go out of their way to communicate something positive about companies they see as being good corporate citizens. That's incredibly powerful, especially in today's world. And to Target, we do, do good. Our company is built on a legacy of community involvement, volunteerism and giving, but our guests just don't fully understand this.

We will start to change that with our first-ever corporate social responsibility campaign, which debuts early next year. It will share our stories using voices and perspectives of team members and our partners who are out making a difference in communities everyday on behalf of Target. It's the first time we will broadly share all we do in addition to education. It's something we are incredibly proud of as a business and we believe it will enhance our guest intent to shop at Target even more.

Finally, let me talk about holiday. As you know, obviously it's going to be more competitive than ever six fewer days and highly promotional. We know that being Target during the holidays, means we have to help or navigate this clutter and inspire her to shop with us for the best and most unique gifts. We also know at this time of year and this year especially we have to showcase the compelling value that Target has to offer and we will be more overt about pricing in all of our channels.

That means hot items at great prices in our broadcast commercials. It means new ways to save with Cartwheel. It means Price Match Guarantee and REDcard. And again when you combine all of these reasons, our total value proposition is unbeatable. Creatively, we are inspired by guest stories about holiday traditions and all the different ways they celebrate. We will fuel the conversation at hash tag #mykindofholiday and we will be leveraging more analytics, more digital channels and more social engagement than any other campaign in our history.

Here is just one example of a broadcast commercial that's a 30 second rough cut that will kick of the notion of My Kind of Holiday.

(Company Advertisement)

In all, we all have roughly 20 different holiday commercials most will be 15 seconds and all but just a couple we will focus overly on great product and outstanding price. During the season, we will punctuate four important aspects of the holidays that sync up with these key shopping moments. Today, I will give you a bit of a preview to Thanksgiving and Kids Gifting.

Don't get me wrong, we are obviously not forgetting about Black Friday! It will be bigger and better than ever and Kathee has already talked about our aggressive in-store and online deals. Our marketing plans will also aggressively support these deals, including our first ever Cyber Week TV commercial, which is designed to drive traffic and sales at Target.com.

So now Thanksgiving, Thanksgiving starts with a storewide catalog that arrives in peoples homes next week. We will showcase top gifts. We will also feature unique product stories, and holiday décor, and even gifting tips from Target's own product designers. Its part catalog, part guide to designing your own holiday, which carries through into our broadcast spots like this one which is a 15 second commercial highlighting our REDcard benefits.

(Company Advertisement)

With the visual metaphor for Pinterest you saw we are also turning to that place we know our guests go to for the most inspiration and that's Pinterest. Building our success in driving sales with Rich Pins earlier this year our Get Ready pin boards will feature shopable catalog spreads designed with

Thanksgiving Day in mind. And we are integrating the top pinned items in-store and on Target.com. Given the cross category traffic opportunity with Thanksgiving prep, we will play up Target's one-stop-shop status for all things Thanksgiving. We will have everything from table décor to the turkey, which will be called out at price-per-pound in TV commercials for the first time ever.

The second aspect we will focus on is Kids Gifting. When it comes to our Marketing, a big part of serving it up for a mom is helping her surprised kids with the gifts she buys to make holiday her own. Here is a look at two rough cuts of commercials that will give inspiration for a new ways to present gifts in a unique week this season.

(Company Advertisement)

Now there is tremendous opportunity here with three out of four of our guests making holiday purchases for kids. Of course, toys remain important, but we are taking a more expansive approach to Kids Gifting, focusing on apparel and accessories, sporting goods and electronics. In Kids Gifting and beyond, we are out to win this holiday. Throughout the entire season, we will inspire our guests with products and ideas, compel them to choose Target through unbeatable offers and enable our guests to shop whenever, wherever and however they want.

Inspiring our guests to shop is a key not just at holiday, but of course all year long. Our brand promise is a thoughtful balance of inspiration and value. And delivering on that promise in a way that truly connects with today's guests will not only drive traffic online, to our apps and our stores, but will deepen guest's engagement and strengthen the love they have for our brand. And that will keep us relevant and growing well into the future.

Thanks for allowing me to be here today, my first meeting with you. I look forward to your questions later. And I am going to turn it over to John Mulligan. Thank you.

John Mulligan - Executive Vice President and Chief Financial Officer

All most there, thanks Jeff. As Gregg mentioned, strong financial management is part of this company's DNA, and it's played a key role in our success over time. At the highest level, strong financial management at Target is a combination of three things: Strong operations, managing every part of the P&L to create value today and over time; Disciplined investment decisions, focusing investments to ensure they meet the company's strategic objectives while using a returns-based approach to ensure they meet our financial criteria as well; And returning cash to shareholders through both dividends and share repurchase. These three elements are at the core of the long range plan we first shared in 2011, and core to the progress we have made in the last several years.

So, let's start with Canada and discuss our progress at this early stage into the market launch. Our long range plan for the Canadian segment is to generate $0.80 in EPS in 2017, driven by approximately 150 stores generating $6 billion in sales and $720 million in EBITDA on those sales, a 12% EBITDA to margin rate. So, what has the progress been so far? We are on-track to open 124 stores this year, keeping us on pace to have approximately 150 open in 2017. And we have been pleased with the ability of our team to build this segment from scratch. As you have heard from Gregg and Tony and seen first hand in the store tour earlier today. However, as we described in our most recent earnings call, we are running well below our initial sales estimates for our Canadian stores, which has put near-term pressure on our EPS as well. Despite this initial pressure, we continue to believe the Canadian Segment will meet our long-range financial goals in 2017. I know this seems unintuitive, so I want to go into some detail to help explain our perspective.

As we have said many times, when we build new stores, we are much more accurate in predicting fifth year sales compared with the first year. This is because the market attributes we look at when opening stores like population density, education and income level have a much higher correlation with fifth year sales than in the first year. To illustrate, this visual shows the range of our experience opening stores and markets throughout our history in the U.S. The right side shows our fifth year sales expectations, while the left side shows the range of our first year experience relative to expectations.

The range of first year outcomes in this chart is two standard deviations wide, which as you will recall from your statistics class, denotes the most likely 95% of potential outcomes in a normal distribution. And reflecting my point about the accuracy of our estimates the variance narrows as we move from the first to the fifth year. When we made our first year sales estimates for the Canadian Segment, we chose the midpoint of our experience in the U.S. We also had planned for the possibility of better than expected initial sales, which was prudent in light of the excitement we are observing in advance of our store openings.

Now, let's look at our updated expectation for Canada, which shows our actual sales experience so far and the slope needed to reach $6 billion in 2017 sales. You can see that while it's steeper than we initially planned, our updated expectation is well within the range of our experience in the U.S. In fact, our Canada plan now matches the pattern we saw following the launch of some of our strongest U.S. markets, including Philadelphia and Washington, D.C.

Furthermore, as Tony explained earlier, we have a clear understanding of the reasons why we have seen initial softness and we have a detailed plan to address them. In the near-term, we are in a period in which dilution from Canada will be considerably higher than originally expected driven by adjustments to inventory and variable expenses to match the pace of sales by a location. Every time we open a store in the U.S., we encounter a set of dynamics: excess inventory on some items, out-of-stocks on other, higher levels of shortage as processes and systems are optimized.

In Canada this is happening in all of the stores simultaneously and it's particularly visible, because we report Canada as a separate segment. Inevitably, these dynamics will persist into the fourth quarter as we experience our first holiday season across Canada. As we move into the New Year, we expect these dynamics to improve and we expect meaningful improvement in Canadian segment EBITDA both quarter-over-quarter and year-over-year throughout 2014. As Gregg mentioned, we have made a long-term investment in these stores and we continue to expect them to be very productive assets. In the meantime, we are devoting all necessary resources and doing whatever it takes to get our inventory and operations in line.

Now, let's turn to our progress in the U.S., along with a discussion of capital deployment. As a reminder, when we launched the long range plan, we expected our U.S. business to generate $7.20 of EPS in 2017 based on the following. We expected U.S. sales growth of approximately 5% annually driven by an average annual increase in comparable sales of approximately 3% combined with about 2 percentage points of annual growth from new square footage. We expected to maintain approximately flat EBITDA margin rates at their historically healthy levels and we expected to gain about 50 basis points of leverage across D&A in 2017.

In the former U.S. retail segment, this meant an EBITDA margin rate of about 10% and an EBIT margin rate of about 7.5% in 2017. However, now that we have sold our credit card receivables and our combining net credit card profits with our U.S. retail results, these expectations translate to an EBITDA margin rate of about 10.3% and an EBIT margin rate of about 7.8% in our new U.S. segment in 2017.

Finally, regarding capital deployment, our long-range plan assumed we would grow our dividend at a compound annual rate of approximately 18%, resulting in an annual dividend of $3 or more in 2017. And we expected to reduce our share count by an average of 3% to 4% annually between 2010 and 2017.

So let's review our progress on these goals so far, beginning with adjusted EPS, which measures results from our U.S. operations. As you can see from this chart, adjusted EPS has remained largely on track when measured against the smooth path required to move from $3.86 in 2010 to $7.20 in 2017. In 2011 and 2012, we were slightly ahead of this path. For 2013, our full year guidance for the U.S. segment would put us slightly behind that path. This is a result of a couple of factors. First, the impact of our credit card receivables sale, which we would expect to create about $0.10 of near-term EPS pressure and second, our performance in the face of softer-than-expected sales. Importantly, however, despite these near-term pressures, we remain largely on track from an EPS standpoint as a result of strong operations, including a relentless focus on expense optimization, which has allowed us to maintain strong EBITDA margin rates and disciplined capital deployment.

So let's drill into each of these factors in more detail. Our record of maintaining healthy U.S. segment EBITDA margin rates underscores our focus on operational discipline and our continued confidence. Upon first examination, 2010 through 2012 U.S. segment EBITDA margin rates were considerably stronger than our long-run expectation of about 10.3%. However, these years benefited from large reserve releases in the former U.S. credit card segment and we were not yet sharing portfolio profits with TD Bank.

Considering these two factors, our underlying performance in these years was very close to our long-range goal of 10.3%. Even with the softer-than-expected sales in the first two quarters of 2013, we have maintained very healthy EBITDA margin rates and we expect our full year rate will be quite healthy as well. So while EBITDA rate performance has met our plan, the biggest shortfall has been our pace of sales. While comparable sales in 2011 and 2012 were close to our expectation of about 3% per year, we have said we expect U.S. comp growth will be closer to 1% this year. This expectation reflects incremental pressure affecting a wide range of retailers, in which lower-income and middle-income consumers are cutting spending to compensate for the payroll tax increase. Additionally, increased spending on housing-related durable goods and automobiles is crowding out other forms of spending across a wide range of household incomes.

Beyond comp sales pressure, growth in new square footage has been short of our long-range plan causing sales growth from new stores to be less than envisioned. This outcome reflects our disciplined approach to store investment in which we evaluate every project against our strategic and financial criteria. However, with less new store investment than expected, we have been able to deploy more cash to other uses, namely returning it to shareholders. As a result, we have been able to grow our dividends slightly faster than the 18% growth envisioned in the plan. And we have retired shares at an annualized pace above 4%, faster than the 3% to 4% we built into the plan. Of course, I can't stress enough. Without strong operations, capital deployment would not have been enough to keep us on track.

As we look ahead, given total sales growth through the first 2.5 years of the plan, it's unlikely that we will attain our original plan of $94 billion in U.S. sales in 2017. Specifically, given the economics of real estate opportunities for new stores, we don't anticipate a meaningful acceleration of new store growth in the U.S. over the next few years. And while we believe comparable sales can recover to the 3% range over time, we remain very cautious about the economic and consumer environment in the near-term. Putting these assumptions together, we now expect total U.S. sales growth to average 3% to 4% through 2017 allowing U.S. segment sales to reach the mid $80 billion dollar range in that year. About half of this change is the result of slower store growth with the remainder related to comparable sales. However, despite this tempered view of U.S. sales, we still expect to achieve the same bottom line results as our original plan, $8 in consolidated EPS and $3 in annual dividends per share in 2017 as we maintain strong profit margins and offset slower sales through capital deployment.

So let's review our updated outlook for capital deployment. In the US, we expect our annual capital investment for the next several years to be in the range of $2.2 billion to $2.4 billion, reflecting fewer new store opportunities, continued investment in existing facilities to keep them relevant and increasing investment in technology and supply chain to drive incremental sales through our existing asset base. And following this year's market launch, we expect Canadian capital investment to moderate to around $300 million for the next two years and then settle into a somewhat lower range around $200 million over time. Altogether, this means that beginning next year and going forward, we expect capital investment to be more than $1 billion lower than this year.

In addition, with next year's expected improvement with Canadian segment EBITDA, we expect to have additional debt capacity under our current ratings. We also expect a working capital benefit in Canada next year as we annualize the inventory build this year, which was required well before the opening of each of our 124 new Canadian stores. Putting all this together, our expectation today is that we'll have the capacity while maintaining our strong single A debt rating to continue to grow our annual dividend at about 20% pace and repurchase up to $4 billion of our shares annually in 2014 and beyond. Depending on our share price, this would allow us to retire shares at closer to a 5% annual pace compared with a 3% to 4% pace built into the original plan.

So despite our current challenges, including a tough U.S. environment and a soft start to Canada, we continue to believe in our ability to achieve our EPS and dividend goals for 2017. We expect to accomplish this – the same approach that has driven our success over time. Strong operations this year's U.S. segment performance demonstrates our ability to manage the business in a soft sales environment; disciplined investment, fully investing to keep our current assets fresh while investing in new assets and capabilities like flexible fulfillment to drive profitable growth; and beyond opportunities to invest in the business, returning cash through robust share repurchase and dividend growth. While we have laid out our current expectations today, we know that the rapid pace of technological change, combined with economic and competitive factors will influence our outlook over time. What’s important is that we continue to optimize our operations and investment to match the opportunities of an ever-changing environment allowing us to achieve our financial goals.

Finally, I want to pause to discuss return on invested capital, because at Target, there have been a lot of moving parts underlying the consolidated view of this metric. On this chart, you can see the after-tax ROIC performance of our U.S. credit card segment, along with an estimate of the after-tax cost of capital for the receivables assets. This data shows the impact of the financial crisis and the recession of 2008 and 2009, after which we saw a strong recovery to performance levels well in excess of the cost of capital. Of course, beginning this year, with the sale of the credit card receivables, we have removed the assets from our balance sheet and we are still earning a meaningful profit stream. As such, with essentially no assets backing the income, the ROIC from the receivables portfolio has become very high, essentially infinite.

Now, let’s add the after-tax ROIC performance of the U.S. retail operations compared with the after-tax cost of capital for our retail assets. This data shows our robust 12.2% performance for Target in 2007 before we encountered the full force of the recession in 2008. However, I believe the more recent data on our U.S. retail performance maybe surprising to many of you. It shows that we earned a higher return on our U.S. retail assets in 2012 than in 2007 even though the economy remained much weaker. I know I am a broken record here, but we achieved the result through strong operations and disciplined investment. And this isn’t a case where we were starving the business. After all, we invested more than $16 billion in our U.S. business over this period, including more than $3 billion in PFresh remodels alone.

So what is our expectation for ROIC, going forward? Our plans envision continued steady progress in the U.S., as you have seen the last few years. In Canada, of course, ROIC is negative today, which is the result of investing upfront to drive future growth. Given that starting point, we expect much more rapid improvement in the Canadian segment ROIC through 2017. In total, our U.S. and Canadian segment expectations would drive our consolidated after-tax ROIC into the mid-teens in 2017. We believe this is a compelling, achievable outcome of our long-range strategic and financial goals.

With that, I'll close and thank you for your attendance and attention today. Like many of you, this management team has heavily invested in this company and we are aligned with you in your desire for superior returns over time. We believe we have the right plan and the right team to continue to deliver our goals. Now, along with Gregg and the rest of the speakers, I will be happy to address your questions.

Question-and-Answer Session

Gregg Steinhafel

Great. No questions. Thank you for coming.

Matt Fassler - Goldman Sachs

Thanks. It's Matt Fassler from Goldman Sachs. You ran through some of the drivers of the Canadian profit shortfall, the systems and a couple others. Could you prioritize those and perhaps quantify those to give us a sense as to which were perhaps most responsible and talk about the path to revenue and then at what point you see each of them getting resolved? Thanks so much.

Gregg Steinhafel

Tony, you want to take that one?

Tony Fisher

Gregg talked about the shortfall from a profitability standpoint in Canada I think it's not just one thing. When you talk about ranking them in priority order, I think first and foremost, our sales were under our initial expectations and I think that's the biggest thing that you are going to see from a profitability miss to our initial expectations. I think on top of that, right now we have continued to over invest from a technology perspective to make sure that we get to where we need to get to. And what we have talked about is as long as we can generate the right return on the business, we are going to continue to invest in this. And we have a lot of things that we can invest in and that will give us the right returns over time to help generate the profit margins that John referred to earlier. So I think the biggest one to what I mentioned is the shortfall in sales. It's been an additional investment, not just from a technology standpoint, but in making sure that we can invest in the right inventory strategies to make sure our supply chain is healthy, that we invest in the right service strategy in the stores from a payroll model perspective. So all these things combined, I think have put some near-term pressure on our earnings, but to John's point, we are going to show meaningful improvement next year as we get through our initial year from the sales shortfall as well as a lot of our operational efficiencies within our supply chain.

Unidentified Analyst

So John, back to your graph around the variance in the first year, so just when I looked at your guidance from last four and the change as it relates to Canada and sort of tax adjusting that and I mean, it seems like your profit projection for the back half of the year in Canada is down $300 plus million and your goal is $720 million of EBITDA. I mean, that would translate to being like 20%, 30% plus off your sales projection. So is that that's truly some of the experience that you've had in the past. And then at what point do you think that sort of hockey sticks back and you recover that?

John Mulligan

Yes, I think the first thing is yes, we have seen this in the past and we have seen markets behave this way and individual stores, I would tell you, we have seen well further off, much further off than what we showed there. And then like I said, that was only two standard deviations. Of course, any normal distribution goes out further than that. So there is long tails on both sides. And we have seen these markets where they start soft and they recover. And we have some operational issues we need to work here that are a little different than we have seen in the U.S. But we know how to drive people into the store once we get the operational issues tackled. We know that playbook. And so we believe we have the ability to do so and we will see, to your point, over from now to 2017 a significant swing in EBITDA.

And the thing I would remind you is this year, we incurred massive amount of startup, we hired team members well in advance of when we needed them, did massive amount of training. All of that next year, drifts away. The other thing is with softer sales than we would expect, there is an inventory bubble that we need to work through. And as Tony said, sales not only compress the profitability but then we have to work through the inventory as well which deteriorates rate. So we are absorbing all of that this year as well. So that's what you saw on our changing guidance is the combination of both of those. A lot of that drifts away next year as well and we will get to running the business and starting to grow sales and that's why we believe we will see significant improvement moving forward.

Dan Binder - Jeffries

Actually, I had a question for John on the U.S. and a quick one on online. First, in the U.S., given the operating leverage in your business and the assumption of lower sales, can you explain in more detail how you plan to lower expenses or grow them at a slower pace to maintain the EBITDA margins that you talked about today? On Canada, maybe if you could just run through quickly what the major price difference or what explains the price differences, first in the U.S. What your customer has been noticing. And then thirdly, on Cartwheel, why isn't that part of the main Target app?

John Mulligan

Well, on Cartwheel, it is part of the main Target app this week, I believe. So we went out with beta two months ago or whatever it was and beta means beta. And we have continued to make improvements and now it is actually part of the Target app. So that's the first easy answer.

Back to Canada or the U.S. operating leverage. I think first of all we don't - the economy could remain like it is today for the next five years. We don't expect that to happen. We expect the economy to improve. So we don't expect to be running a one comp for the total year. And us leveraging operating expenses at one comp will be very, very difficult. Make no mistake about that. However, as we see hopefully, see a return to more normal economic environment. And normal here mean not meaning great. Just going back to perhaps where we were last year would be an improvement from where we are today. We believe we can leverage expense. We have been focused on what we call expense optimization now for about – we started this about 18 months ago. And really, our focus was we knew we were going to invest significantly. Everyone today talked about performing and transforming. A big part of transforming is hiring and building new capabilities within Target. All of that very expense heavy. Technology investments are expense heavy. Supply chain investments are much more expense heavy than we do – than our investments in stores.

So pulling expense out from other parts of the business is critically important. And we have had a list of dozens and dozens of projects that we have been working on to pull expense out of the rest of the business. Things like as simple as something like transportation. So we had historically optimized transportation by our distribution facilities. Each one of them optimized but optimized individually. Stepping back and taking a look at our entire distribution network or transportation network and optimizing that holistically creates significant leverage for us and a significant expense savings. That one happens to flow through cost of goods, but expense savings nonetheless. So projects like that across our entire organization we have implemented some more will get implemented next year. Many are getting kicked off and this is just a continual process for us to continue to fund investments in the business that we are making as we go forward.

Gregg Steinhafel

And again, they are really across the enterprise and we started this 18 months ago when we said, okay we have got to double down and multichannel. We have to transform the enterprise from an analog to a digital company. What are we going to need to invest in and how are we going to get there in a slow growth environment. And, that's one example. I mean, you look at our store structure and the number of people that we had between the store, running the store itself and the headquarters and with the use of technology today and we are looking at all the people that we had as support help. We thought, okay, there has got to be a better way to do that. And we looked at that and that was another big area. Just the indirect spend within the organization. Making every dollar work a lot more aggressively throughout the enterprise and there has not been one area throughout the organization that hasn't participated it. Think about what's going to happen in our property development. We were built and ready to continue growing at a pace of 30, 40 or 50 new stores a year. Well, that's just not going to happen in this environment. So we've looked at that organization to say, okay where within that how do you right-size that down to the real world? We're ramping down our PFresh remodel program. We had 400, then 300, this year it's a 100. Do we need as many people involved in that? So those are just a handful of the examples.

It is nothing about the infrastructure. These are all very thoughtful, forward looking aspects in terms of how can we operate Target much more efficiently than we've ever in the past. And we have been expense-focused over the last five years as you know. But this is really takes it to a new level to make sure that we are extracting as much efficiency as we possibly can. As it relates to the Canadian pricing, we are right on where we need to be here in Canada and that's really what counts. Sometimes people compare prices from Canada to the United States. That would be like comparing prices in

Boston compared to what we have in rural Iowa. I mean, we have a lot of variability in our pricing in the United States but most importantly, what we focus on is being priced properly in each and every trade area that we operate in. The same approach holds true in Canada. We're just laser like focused to be competitively priced versus a price leader which is primarily Walmart up here as well because they shop everybody else very, very aggressively and like in the U.S., we know if we key off of Walmart, we're going to be competitively priced. So that's really our objective is to be competitively priced, by store, in Canada, by trade area and we are that. We are that and then when you add the fact that we have a price match guarantee and a 5% REDcard Rewards, we believe our value proposition is really unbeatable.

Greg Melich - ISI

Hi it's Greg Melich with ISI. Greg, it looks like the new Targets, the 3% to 4% sales growth, 5%, before it's sort of half store footage and half comp. Is it, if you could choose to give up some margin and actually still have the 5% sales growth, would you do that or do you think it's the consumer just isn't even there right now to take in more margin risk, doesn't really drive more sales? And that that's, I want to just get your feel for where we are in that with the consumer and what you would do if you could do it?

Gregg Steinhafel

Yeah. We believe our value proposition is really superb and if we really thought that we could gain more share and we could grow our way to more prosperity with lower margin rate and invest more aggressively in price, we would do that. But we already have a superbly strong value proposition which is winning in the marketplace. And you know, there's a fine line between investing aggressively on price and starting something that we don't like the long term consequences are in terms of getting too aggressive on price. So we selectively take market leadership positions but otherwise, we want to be competitively priced with the best of the best and that's really the position that we’ve taken. We just don’t believe that if we got any more aggressive in certain categories, it would really yield a positive outcome.

Greg Melich - ISI

Okay and John, just a follow up to get that 4 billion buy back, how much of that is the working capital and the CAPEX decline next year? Because you talked about a 5% rate each year in the model but 4 billion over your current market cap is what like 9%. So does that mean we’re going to do 5 billion or 4 billion for a couple of years and then decay or how should we think about that?

John Mulligan

You know, I think actually as we look at it, 4 billion or a little more going out beyond that seems reasonable relatively steady state. In any one year, it could be choppy. But I think the CapEx come down and the free cash flow increase as a result of that will continue out for the foreseeable future. A little bit of it is the working capital. That’s not a big piece of it. It’s real but that’s not a big piece of it. We do expect to continue to see EBITDA improvements in Canada, however. As noted by the earlier question, we will need to see continuous EBITDA improvements in Canada and that will be a part of it too, as we look out.

Priya Ohri - Barclays

John, Priya Ohri from Barclays. Just wondering if you could give a little bit more context around the type of leverage pressure we should see as a result of increased buybacks. Obviously, a lot of that’s being offset by the free cash flow. But in terms of the increased debt capacity you alluded to, could we get a little bit of quantification around that?

John Mulligan

Priya, you make me laugh. We have been clear and I even used your words. We will maintain our current A credit rating and so, we’ll have conversations with our agency friends and make sure we understand the leverage that is associated with that and we will maintain our current A credit rating. You've got it on record.

Gregg Steinhafel

More than once.

Walt Pearson - Brown Capital Management

A question on the REDcard penetration. I guess in the U.S., you're 18%, 19% penetration right now with REDcard and today, we heard that you are about 1% or 2% as far as Canada. There were some issues with privacy laws that were holding things up in Canada. Can you give us a realistic expectations for REDcard penetration in the next few years out in the U.S. as well as Canada?

John Mulligan

Well, in the U.S., we've said, I've stopped giving predictions on the REDcard penetration in the U.S. We've said 20% was our stretch goal when we started this. We have moved, we're basically at 20% right now in the U.S. You heard Kathee say Kansas City is at 25%. I said 30% would be our stretch goal in the U.S. and now Kansas City will probably get somewhere close to that next year, it looks like, given their continued growth. So we continue to see great strength in the U.S. The debit card continues to be the piece of that that we didn't forecast. The credit card is probably operating about like we thought. But the debit product is the right product at the right time for our guests and we expect that to continue.

Importantly, as long as we continue to see 50% sales left on activated cards, which we do, we will continue to aggressively market it. So we continue to think there's lots of opportunity in the U.S. In Canada, you know, the number is not there but the store acquisition is our best way of signing up new people for the REDcard. And next year, we'll add in-lane application which will be a huge leap forward in our ability to acquire guests.

We think the offering here is just as compelling as it is in the U.S. and we don’t have set projections because we want to get that in-lane acquisition running before we start to talk about that but I would expect it to grow meaningfully over the next several years because the offer here is very simple, very compelling just like it is in the U.S.

Peter Benedict - Robert Baird

Hi guys. Peter Benedict at Robert Baird. You laid out a number of 2014 operational initiatives to kind of get Canada back on track. Just curious which of those were part of the initial plan, kind of always going to happen? Were there any that were kind of new that you kind of put into the plan? And then secondly, related to that, as we think about SG&A next year in Canada, you had a lot of startup expenses this year which will be operating all the stores next year. John, is that number going to flat, down year over year? How should we think about SG&A in Canada actually, thanks.

John Mulligan

So I’ll do SG&A and then you take the investments. You know, I think like we said, we want to get through, get this last wave of stores open, get the holiday season behind us, get one holiday season behind us and then we’ll be back with a lot more detail about 2014 and what that will look like. So I’ll kick the can down the road about 105 days, I would say.

Tony Fisher

As far as our capital investments for next year, of all the things that I’d mentioned, not one of those things are new. What I would tell you has changed with our recent performance is the pace of implementation will speed up. When we want to get in-lane of credit enrollment, when we want to get site level pricing and optimization, when we want to get some of the business intelligence and analytics and reporting, when we want to get some of the DC and supply chain efficiencies.

So we had plans and we started these back in 2012 as far as that we're going to start lean. Start with a very narrow scope and the fact that we went out of the box with these technology solutions allowed us to react and enhance those very, very quickly after opening. And so given our performance and the fact that we're short of our initial sales goal, we're staying with all the initial plans because of the right ones. We're just trying to accelerate them faster to generate stronger, near-term results.

Chris Horvers - JP Morgan

Thanks, Chris Horvers, JP Morgan. Understanding that Target is priced right in the U.S. and in Canada, do you think that there's an in-stock problem that perhaps you know, because of the consumer and the environment that we're in, it's a little tougher to take inventory risks and you're running perhaps too lean on inventory and pushing some customers away?

Gregg Steinhafel

Are you talking about Canada or are you talking about in the U.S.?

Chris Horvers - JP Morgan

In the U.S.

Gregg Steinhafel

I would say absolutely not in the U.S. Our in-stocks have been really solid. Our inventories per store have been consistently healthy. We have not backed away from being in-stock or any of our commitment to being in-stock, particularly in the non-discretionaries. I mean, we have a very aggressive goal in terms of never to lose a sale. As you move down to the risk continuum to the highly seasonal markdown sensitive categories, it's the same approach that we've always taken and that has been we want to maximize the business but never capture the last sales. We want to have sell throughs that are in that low 80% but we know if we get a sell through of 90%, we're too light and we left too much business on the table. If our sell throughs are at 70%, then we over-planned for that seasonal business. And so the approach we take to stay in-stock and exit cleanly has been pretty consistent in the U.S. and this environment really hasn't changed our approach at all because we've been in this somewhat choppy environment for a couple of years now and so we're well into that same kind of cadence and rhythm.

Chris Horvers - JP Morgan

So it wouldn't as if, if the environment got better that you would take I guess greater inventory risk on the discretionary side?

Gregg Steinhafel

Well, if we see sustained growth, we have the capability to respond quickly. So take 2012, in the first quarter of 2012 when we got off to a lightning fast start and our apparel business ran double digit mature increases. First of all, we had the base inventory to do that. We left very little business on the table and our supply chain is quick enough that we can turn around and get back in stock in some of those discretionary categories in 45 to 60, 90 days.

Chris Horvers - JP Morgan

And then just a couple of financial follow ups in terms of the comp and then the buy back. It seems like it's about a two and a quarter average comp over the next four years using what you said. Do you think, I mean, I guess, what's the shape of that curve look like as you look to next years out of 1.5 is that 2? And then on the buy back, it seems like maybe $2 billion of incremental debt next year in order to fund $4 billion and previously you talked about I guess buying back at a high teens multiple. What sort of valuation are you assuming in that?

John Mulligan

I, first, on the comp path, you know what I'd tell you. If I really knew the answer to that, I wouldn't be in this job. I'd be in yours and I'd be very wealthy and I wouldn't be sitting in this room.

Chris Horvers - JP Morgan

That's why they're sitting here.

John Mulligan

But I know the comp path for retailers. You know, we expect the economy to improve slowly. Same grind. The payroll tax will cycle in January. I think that clearly had a meaningful impact this year. The ACA impact is real next year. There is headwinds there, but we expect to see improvement through time. So are we going to bounce back to a three comp next year? No, we don't think that's the case. But we'll continue to see steady improvement. On the debt, yeah, you're probably in about the right range for incremental debt next year assuming again everything goes according to what our current outlook is today and that would allow us to fund the $4 billion in share repurchase. On the valuation, what I would tell you is, as we, as our performance improves, we would expect our valuation to not drag or lag our peers by quite so much. So some valuation improvement from where we are today through time.

Jason DeRise - UBS

Hi it's Jason DeRise at UBS. I just wanted to ask a question about some of the tradeoffs or at least tradeoffs that I perceived in the presentation. So you're a very centralized company and you're talking about keeping the margin the same but you want to do more department store like service and layout. You want to do more local assortment. You want to do multichannel. You want to do flexible fulfillment, training your staff to be more of a salespeople. So just help me reconcile some of that, please. And then I have a follow up on Canada.

Gregg Steinhafel

Well, we live in the world of And. The answer is yes. We have to do all of that and that's why we're taking such an aggressive approach to expense optimization and discipline is because we have to create enough capacity to invest aggressively to deliver on those kinds of service oriented attributes that the guest is just expecting. They're just becoming more table stake. So we have to have more team members in our stores at the right time in the right businesses. So we'll be really careful and smart about that. We know that the supply chain will continue to evolve and our stores have become more important. But the more efficient that they get at delivering, especially from store to guest, we save a lot of money from right now, a handful of fulfillment centers that are making long transportation drive. So there's some positive tradeoffs as it relates to the operational aspects of that as well. And there should be some markdown savings if you look at, if we're able to really optimize where the goods are coming from and where they're going to. We should be able to identify those items within our assortment within those stores that are turning the slowest and making sure that those are the items that are getting to those kinds of guests. So there's a lot of moving parts in it but we really don't see that that there is tradeoffs, any additional tradeoffs that we can't afford or can't support or fund.

Jason DeRise - UBS

I guess it sounds like you think you can get more centralized even in those processes as you're also taking that….

Gregg Steinhafel

Well, it's both centralized and decentralized. I mean, we are a combination of both. We're highly decentralized when we think about what we're trying to do to the guest. We want to be as decentralized as understanding each individual guest so they view Target as their Target. But that doesn't mean we have to run the business as a decentralized company. We can take all of those attributes by store, by market, and through technology, we can filter them up to our headquarters and then redistribute out a very consistent game plan to those markets so that we maintain the operational discipline and the crisp nature that our guests are accustomed to. So it's both – it's a decentralized and a centralized approach to the business. The technology is going to be more of a centralized. But we think about the guest and the guest in each individual community and how it make our stores relevant and that's highly decentralized.

Jason DeRise - UBS

Okay. And then the follow up I wanted to ask on Canada was obviously, you had Canadian shoppers who came to the U.S. to shop Target. How has their interaction with the U.S. targets changed since the stores have opened? What have you learned about merchandising? Are they still buying things in the U.S. that they're not buying in Canada? Thank you.

Tony Fisher

Yes, we have seen. We had about 11% of Canadians had shopped Target within the past year before we opened stores. And so, with 35 million Canadians, that was about 3.5 million Canadians or so that had shopped Target on a 12-month basis. They're still shopping the U.S. They're still shopping Target. They're still shopping at many other retailers in the U.S. But it is a destination trip for them. I think what we have seen is in some of those border stores, and it's very segmented in those border stores. You think Buffalo, you think Bellingham, Washington. You think some of these markets. You think Detroit. Very specific stores have seen an impact but broadly in the U.S., so there's really been no impact because it's been so small. But we have seen a change in some of those border store shopping habits because we can keep that guest on this side of the border.

Jason DeRise - UBS

(Question Inaudible)

Tony Fisher

You know I think what we're doing is we're not necessarily going to change our merchandising based on a few guests that might shop the U.S. versus Canada or shop Canada versus the U.S. We're looking at our business in total across 124 stores across all 10 provinces this year. And as we think about building that relationship with that guest over time, we need to get better and more local. To Gregg's point, we want to get more local in the U.S. We are going to do the same thing in Canada but we started with a very, I think a similar approach across the country. We're going to let the guest tell us what we need to change in Vancouver versus Calgary versus Edmonton versus Toronto, et cetera. So I wouldn't say that we're changing anything meaningful based on the differences between U.S. and Canadian shopping patterns rather what we're learning at a 124 stores across this entire year.

Gregg Steinhafel

Yeah let me just add. One of the things that the research told us early on is the Canadians wanted the full Target experience brought to Canada. They did not want Canada or Target Lite in Canada. So we worked really hard to bring the best of the best and bring the full Target experience to Canada. And that's why they don't have to go. They're not missing anything by not making that trip to the U.S. Okay one in the back and then we will come upfront.

Jack Balos - Focus Research

Okay Jack Balos at Focus Research. Last week, I was in your Valley Stream store in New York and today of course, here in Canada. I just looked at two narrowly focused things because about the only thing I can understand is men's wear. One is that and men's underwear, you will have a very high out-of-stock position. You're out-of-stock in Hanes. You're out-of-stock in other things. I was just wondering in general what your overall goal is in terms of an in-stock position.

The other question has to do with men's shaving cream. It seems like you only have one brand which is Gillette, practically nothing else. So I was wondering if you could just share your philosophy in those two areas.

Gregg Steinhafel

Well, it's never our intention to be out-of-stock in men's underwear or socks. You know, that could be a lot of things. It could be over demand. It might be a store operational issue. It could be a vendor issue. And if it's something that we see consistent across the chain, then we know perhaps we sold through on an ad or we got a vendor issue. If it's isolated to one particular store, it's typically related to the operational metrics within the store and the fact that we aren't doing what we should be doing and that's getting it out of the back room and onto the sales floor. But those typically are very isolated incidents. And as it relates to men's shaving. We have more than just Gillette. We do carry other things. They are the dominant market share leader in that category. That's like coming into our laundry business and saying, My God, all I see is Tide. Well, between Tide and Gain, it's basically 80% of the marketplace and you're going to see a lot of that, you're not going to see a whole heck of a lot of other laundry choices except for maybe Arm & Hammer and Up & Up. But that's what happens when they own and they're the clear market share leader and that's where we need to be. We need to be where the market share leader is.

Bernie Sosnick - Gilford Securities

Bernie Sosnick at Gilford Securities. Developing Ecommerce capability has been very expensive for major retailers. Nordstrom, Macy and as you know, the incremental costs at Walmart is $0.09 a share this year. Could you give us an idea of the costs you expect to incur this year, next year, and some projection of Ecommerce sales?

John Mulligan

Well we, I'll let Casey talk about the business but, and investing but we said at the beginning of this year, technology and supply chain in support of multichannel was $0.20 to $0.25 of incremental costs for us this year. It will be incremental again next year. Not nearly of that magnitude. I think $0.05 to $0.10 incremental. But I think the way you are characterizing it perhaps is the wrong way. I mean, if this historically new stores cost us $0.20 to $0.25 a year in incremental expense because we opened up a new set of stores. This is the engine of growth. And so we're investing in that engine for the future and I think that's the lens we have to look through as we go forward.

Bernie Sosnick - Gilford Securities

Thank you.

Casey Carl

Just couple of things I'd add to that. One, I completely agree with everything John said. Two is every investment we make in Ecommerce is really investment in all of our channels because that's where our guest is using that channel plus mobile. Whether they're choosing to go in-store to purchase or whatever they're choosing to go online to purchase. So, all those investments are really across the core. And in addition to that, where we're investing within that is significantly not only around not only strengthen the Ecommerce experience but really doubling down aggressively in mobile. Because mobile is really where the future is. Our guest is dramatically over indexes in mobile and we have to own mobile because that really unlocks our whole multichannel experience. And then in terms of the sales, what I will say is target.com and mobile will be an ever increasing part of Target's overall sales performance but with that said, it also drives a dramatic influence, kind of footprint on total core sales in the stores as well. So, I spend less and less time worrying about what channel a sale gets booked in because all of the channels are being used in unison throughout every shopping journey.

John Mulligan

Yeah don't think of it as an incremental investment spend. Think of it as a reallocation and a more efficient use of the capital compared to investing in new physical distribution centers or new stores that might generate average returns. These are great investments because they, this is the fuel that drives same store sales throughout the existing 1800 stores.

Bernie Sosnick - Gilford Securities

It's a very helpful answer. Thank you.

Unidentified Analyst

Gregg, when you first got up there, you made a real interesting comment. You said that one of the things that you have to do it become more rapid in decision making more doing, less testing, more evolution. And so I mean, I think maybe being too bureaucratic is something that I might have thought was maybe a slight fault of or too collaborative with slight fall of Target's. Can you talk about how you're going to be faster doing all this maybe for merchandising. You have given examples on technology but I think would that mean you get more excitement in the stores? So I mean that's what I'm actually interested on the merchandising part of how being faster in decision making is going to work?

Kathee Tesija

Yes I'd be happy to take that one. We have historically done a lot of testing as you know, at Target. But the point now is we not only want to get the test out there but then we want to be able to iterate on the test several times so that we might start in three or four stores. We might actually highlight it in 15 or 20 or 30 and then we might start rolling. And we might not even go to all stores. So I guess let's go back to the baby example that I referenced earlier where we actually started testing that in Minneapolis. We did a couple iterations. In fact, I think there was maybe three weeks before we set it in Chicago or four weeks. But we already had a couple of different iterations before we hit the Chicago market. Those stores then got the new one. Now we're learning what's happening there. We've got several different fixtures, technology, store support so there's several different tests going on simultaneously that we're learning from.

And then we'll be able to predict how many stores shall we roll it out to. What volume stores? What components of the test? So I think that's the agile part that Gregg was talking about. And I mentioned several tests that we have going on right now. The old days of having sort of a new prototype sort of unveiled all at one time are gone. We are just continually changing what we do. So today, the test that I just briefly mentioned, we're working on our apparel merchandising and adding mannequins within that to really showcase the product. We've got a test going in entertainment and electronics. That brings a lot more help to the sales floor, a lot more product that's available to try to touch, lower profiles, better guest experience. In beauty, we have been testing new fixtures. We've iterated on those and we'll be rolling that in 2014. So probably 6 or 7 different tests in very different phases from one store to many stores going on right now that we'll learn from and expand.

Unidentified Analyst

(Question Inaudible)

Kathee Tesija

And we probably would have waited to get it into a store until we were more right. Until we had, for example, looked at the fixtures at headquarters, examined them in great detail, brought them out and put them in one store then gone into 15 stores. And now, we're in the store. We're testing. We understand what has to change. And before we even get it changed there, we can do that in the next set of stores.

Gregg Steinhafel

So let me just wrap that a little bit. I mean, we have a very large enterprise. So it’s 370,000 team members. So it’s a big battleship but we know that we have to change the culture. And just like our brand promise which is Expect More Pay Less, we have to preserve the great aspects of the operational discipline that we have at Target. I mean, we have to have systems that are reliable, that scale that process billions of bits of information in a safe and secure in a very, very fast way. We also know we live in the digital world and we have to recognize and understand and value that aspect of the business. And so we have to be both. We have to be buttoned up but maybe not quite as buttoned up in the past. As a matter of fact, I think Greg Melich made a comment one time and he accused us or it was attributed to him or somebody that said, the folks at Target are so buttoned up, they wonder whether or not we actually iron our underwear because we’re so precise.

Well, we’re trying not to be quite so precise anymore. I mean, we still want to be efficient and buttoned up because if we’re not, it leads to wasteful spending in our store’s organization. But on the other hand, like Kathee said, we have got to move very, very quickly. We have got to think differently. We’ve have to get things in. We got to test. We got to learn. We got to fail. We got to skin our knee. We got to try, try again, try again, try again. And so we have to value both aspects of that culture within Target and make sure that there’s room for both kinds of individuals and that we create the kind of environment over the long term that values that digital, fast moving paced, risk oriented, curious learning environment. And that’s really the heart of the mission is to create that kind of energy in Target so that we can move much more quickly.

And it’s not just merchandising. It’s everything that we’re doing. The whole mindset of everything that we do has to have a little bit in one foot straddling on both edge. And the more strategic, the bigger decision it is, obviously we’re going to take a lot more time and energy and care to make sure that we get that right. But other things, we’ve just got to get it out there and just try it and see what’s going on or we have to be really a quick follower or just be maniacal about following what our competitors are doing and just learning through their pluses and minuses. We have time for a couple more questions and then we'll be available after the session here. Okay way in the back.

Patrick McKeever - MKM Partners

Patrick McKeever with MKM Partners. You talked about your experience in Philadelphia and the Washington, D.C. market as being similar perhaps to the experience you've had in Canada thus far. Was it just an underperformance relative to plan and then a pretty quick expected ramp that occurred or were there more similarities? Did you have some out-of-stock issues for example in those markets were you kind of battling consumer misperception on your pricing? I mean were there other similarities?

John Mulligan

Well there is always. Any one of the markets our stores that underperform or over perform, there's always a story. I think in cases where we underperform, some of the issues are going to look very much the same. When we get backed up in inventory, we have to work through it and that takes time. Even at a store level. When we get backed up, we have to work through it. And it can take time and you're seeing that in Canada today. Certainly, some of those markets, when we went into them there was the Target which is Region 400 for us. The East Coast knew us from that perspective which was Home and Apparel. And so building frequency was part of the challenge there as well. There is not direct similarities to Canada. What we've done in Canada is far beyond anything we've done in the U.S. given that we had a base of stores and a base of systems and a base of teams that we could rely on as we entered those markets. We didn't have that in Canada. But other attributes are very similar and we've seen where we've missed expectations in the past and then we see sales build. And it doesn't happen overnight but through time, again by the 5th year, we get back to roughly what we thought good, plus or minus on that.

And the correlation again, the point really is when we look at the demographics of these sites, everything we know about them going into this, we had studied Canada for years and years and years before we ever got close to doing this deal. And as we approach doing the deal, our property development team and the market research team, two separate teams. One reports to Finance to ensure that we have an objective view. All came to the same conclusion that given the demographics of these sites, they were going to be outstanding and we still believe that today. I mean everything we have seen to-date leads us to believe that all the issues we're seeing, we can resolve and get to $6 billion of sales.

Gregg Steinhafel

Yeah let me just put a little bit more spin on that. Regardless of the leasehold interest transaction, we had independently bull's eyes on the map that said, if were at greenfield and go to Canada, where would Target go? Right. So we looked at all 10 provinces and we had dots on the map. And when we put the overlay of the leasehold interest from Zellers and remember just to refresh, there was 276 that we netted down to the best 134 locations. And after we went through that process of what are the best 134 locations and we put those bull's eyes on the map, guess what? The overlay was nearly identical. So independently, the trade areas that we would have wanted to go to from a greenfield standpoint were scarily consistent with the sites that we selected. And so it validated the fact that these are great trade areas. These are just absolutely long term bulls eye locations. We've done this many, many times in the U.S. and that's why we have confidence that over the long term, we're going to get it right because the fundamental aspects of what the power of these trade areas lean really, really heavy toward the demographics that ultimately love Target and we're just going to work tirelessly until we fix the issues and we get the guests to love us as much in Canada as they do in the U.S. One more question, thanks.

Randy Harris - Trendex

Randy Harris from Trendex. Four very quick questions, first of all…

Gregg Steinhafel

How many? Four.

Randy Harris - Trendex

Very quick though. They're one word answers. Somewhere in the bowels of your corporate headquarters, is there a map of Mexico with bull's eyes on that, too?

Gregg Steinhafel

There is a map of Mexico on every map of the world but there is no map of Mexico in any of the Target discussion at any time.

Randy Harris – Trendex

Okay second question. If you've announced it, I missed it. Are you prepared today to say definitely how many stores you will open in Canada next year and the year after?

John Mulligan

We haven't said that but we've said, we think by 2017, approximately 150 stores. 124 this year. About 25 or so, give or take, plus or minus, depending on the opportunities that are in front of us, between now and 2017.

Randy Harris – Trendex

Third question. Ecommerce is dramatically underdeveloped in Canada. Is that factored into your forecast of the Canadian market?

Gregg Steinhafel

Do you mean long term?

Randy Harris – Trendex

Yes.

Gregg Steinhafel

We expect to ultimately have an E-commerce offering here and we expect that ultimately, the Ecommerce market will develop here. But as far as our long term projections for $6 billion, it's not a meaningful portion of that.

John Mulligan

I hope your fourth question is for Jeff Jones because he is the only one that hasn't fielded a question.

Randy Harris – Trendex

It is exactly.

John Mulligan

And marketing is a core tenant of…

Randy Harris – Trendex

And that's my fourth question, in all of the presentations made today, marketing was the only one where the word Canada never came up once. Is there a standalone separate marketing plan for Canada?

Jeff Jones

Yes, there is and a standalone dedicated team in Canada focused on it. Yeah so we launched Canada and we are actually named Marketer of the Year in Canada before a store opened. A lot of credibility for how we entered the market on the right terms as a U.S. company and now 100% of our focus is on telling the story of why she should come to Canada with the focus on price and value. There you go. Got me in.

Randy Harris – Trendex

Perfect.

Jeff Jones

Well done, thank you, all right.

Gregg Steinhafel - Chairman, President and Chief Executive Officer

Well, thank you everybody. I appreciate you being here and we'll be available for a few minutes to take other questions.