Target (NYSE:TGT) Q4 2011 Earnings Call February 24, 2011 10:30 AM ET

Executives

Kathryn Tesija - Executive Vice President of Merchandising

Gregg Steinhafel - Chairman, Chief Executive Officer and President

Douglas Scovanner - Chief Financial Officer, Chief Accounting Officer and Executive Vice President

Analysts

Gregory Melich - ISI Group Inc.

Robert Drbul - Barclays Capital

Daniel Binder - Jefferies & Company, Inc.

Peter Benedict - Robert W. Baird & Co. Incorporated

Deborah Weinswig - Citigroup Inc

Jeffrey Klinefelter - Piper Jaffray Companies

John Zolidis - Buckingham Research Group, Inc.

Charles Grom - JP Morgan Chase & Co

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corp.'s Fourth Quarter 2010 Earnings Release Conference Call. [Operator Instructions] I would now like to turn the conference over to Mr. Gregg Steinhafel, Chairman, President and Chief Executive Officer. Please go ahead, sir.

Gregg Steinhafel

Good morning, and welcome to our 2010 fourth quarter earnings conference call. On the line with me today are Doug Scovanner, Executive Vice President and Chief Financial Officer; and Kathy Tesija, Executive Vice President, Merchandising.

This morning, I'll provide a high-level overview of our fourth quarter and full year 2010 results, along with our priorities as we enter 2011, then Kathy will discuss our fourth quarter category results, share recent guest insights and highlight initiatives for 2011. And finally, Doug will provide detail on our 2010 financial results, our outlook for 2011 and our longer-term growth expectations. Following Doug's remarks, we'll open the phone lines for a question-and-answer session.

As a reminder, we're joined on this conference call by investors and others who are listening to our comments today via webcast. Following this conference call, John Hulbert and Doug will be available throughout the day to answer any follow-up questions you may have. Also as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings.

We're very pleased with the fourth quarter and full year financial results we announced earlier this morning. Our fourth quarter diluted earnings per share of $1.45 were above our expectations, resulting from solid performance in the Retail segment, unexpected strength in the Credit Card segment and favorability in our income tax rate. Our full year earnings per share increased 21.4% over 2009, reflecting strong results in both business segments, along with the impact of a robust share repurchase program.

In our Retail segment, the pattern of our fourth quarter sales was far more volatile than expected as consumers retimed their holiday gift purchases weather across the country drove dramatic swings in our daily sales. Traffic remained strong in the fourth quarter, up 1.6% on top of the robust 2% traffic increase we experienced in the fourth quarter of 2009.

Our Credit Card segment continues to generate strong results due to disciplined execution and underwriting, as well as improving consumer balance sheets. Beyond the profit this segment generates for Target, it creates much more value through its integration with our retail strategy. Most recently, as the platform for our 5% REDcards Rewards initiative. Our REDcards are helping to deepen our relationship with our better and best retail guests.

As we pursue a potential transaction, sell the receivables assets created by this segment, a key priority will be to preserve the valuable integration of our card offering with our overall retail strategy and brand. In addition, we're committed to maintaining our card operations, including all aspects of the interaction between our team members and our guests.

Beyond the performance of our business segments, fourth quarter and full-year financial results benefited from our robust share repurchase program and favorability in our income tax rate. Going forward, we believe we will continue to have ample excess capital to devote to opportunistic share repurchase without adversely affecting our credit ratings after we funded strategically and financially appropriate investments in our core business.

As we enter 2011, we're focused on driving results in the near term while we continue to invest in initiatives that will sustain our future performance. To ensure successful performance today, our merchants are focused on creating newness and excitement, staying reliably in stock on basic and commodity items and delivering outstanding value through our assortments. And as always, our stores' teams continue to focus on appropriately controlling expenses while delivering a superior guest experience. Our goal, both today and in the future, is to be our guest's favorite place to shop.

We have several transformational strategic initiatives that will position Target for success over time, namely, we continue to remodel our existing stores to deliver an optimal merchandise mix along with a great experience. After a record 341 PFresh remodels in 2010, we expect to set another record this year by remodeling approximately 380 more stores. Consistent with last year's remodels, our 2011 projects will expand our assortment of dry, dairy and frozen foods at a thoughtfully-edited assortment of the best-selling perishable items and incorporate reinventions in other areas of the store, including home, apparel, beauty, shoes and baby. In addition, when we're making these merchandise changes, we also update visual elements and refresh every part of the store.

The under existing store base we continue to add locations in the United States when they meet our strategic and financial criteria. In 2011, we plan to open six new stores in March and another 15 locations in the second and third quarters. We continue to develop our plans for a small urban format called City Target, and we expect to open pilot locations in Seattle, Los Angeles, Chicago and San Francisco in 2012. If successful, this format will provide us more flexibility to operate in densely populated areas on sites that won't accommodate our larger store formats. And as we announced last month, we're excited about our plans to open between 100 and 150 Canadian Target stores in 2013 and 2014 as a result of our acquisition of leasehold interests in Zellers sites. This transaction gives us access to key locations and markets throughout Canada and will allow us to achieve an efficient scale in a very short period. We believe that the addition of Canada provides Target with better potential to grow sales and earnings per share to higher absolute levels several years out than we would have otherwise.

Beyond physical stores, we're investing in target.com to ensure that we deliver our Target brand experience anywhere, any time for our guests. We expect to launch our own platform for target.com in the third quarter, marking the end of our multi-year partnership with Amazon.com. This project is on track and portions of the new platform have already launched, including order management and fulfillment. This new platform will completely transform the online experience for our guests, driving traffic and sales by serving as the platform for our multi-channel initiatives.

And finally, we expect our new 5% REDcard Rewards program will continue to deliver incremental sales and traffic in 2011. Nationwide since last October's launch, active new accounts are running almost 4x ahead of prior year, and new REDcard guests are shopping more often and spending more at Target. In Kansas City, where we launched this program in October of 2009, we continue to enjoy strong increases in REDcard penetration in year two as more and more new REDcard guests sustain their higher level of engagement, a good indicator of the program's strength in creating deeper guest loyalty.

These are some of the strategic initiatives that we believe will create value both today and well into the future. With the addition of Canada, our growth plans anticipate that Target sales will exceed $100 billion in the next six to seven years, and we believe that we can at least double our earnings per share over that same time period. Our teams are energized and eager to make each of these initiatives a success.

While we're very excited about our plans to expand in Canada, we remain focused on thoughtful, disciplined execution of our strategy here in the United States. Because of our decade-long focus on recruiting, developing and retaining strong leaders, we have a wealth of talent at Target that will ensure we deliver on all of our initiatives around the world.

I want to thank our great team for all of the work they've done to deliver strong financial results in 2010 and for the energy they devote everyday to making our future plans a reality. Now, Kathy will provide more detail on our fourth quarter results, share recent guest insights and outline key initiatives for 2011.

Kathryn Tesija

Thanks, Gregg. In many ways, the fourth quarter was a lot like the rest of the year with times of surprising strengths followed by unexpected sales softness. We believe this pattern is indicative of a new economic reality in which consumers think and behave differently than they have in the past.

We believe we're well positioned to continue to thrive in this new world because of our strong brand, loyal guests and our singular focus on deepening the relationship with our guests.

As Gregg mentioned, the pattern of our sales in the holiday season was more volatile than expected. November sales and traffic were quite strong as favorable weather drove apparel sales and guests responded to holiday promotions like our pre- and post-Thanksgiving events in the final week. We now believe that some of these sales were pulled forward from later in the season as we experienced a meaningful slowdown in sales and traffic in the first half of December, most notably in gift-giving categories like toys, electronics and housewares. The last two weeks of December strengthened once again as guests responded to our differentiated assortment and the one-stop shopping convenience provided by our stores.

As we've noted in prior conference calls, today's consumer is focused on value, and this was clearly evident this past holiday season. Not only did promotions affect the timing of sales within the quarter, a higher-than-expected percent of overall holiday sales were from items on promotion. We offset this pressure through our ongoing efforts to increase gross margin within categories, meaning that the year-over-year reduction in our fourth quarter gross margin rate was entirely driven by our PFresh remodel program and REDcard Rewards.

Following a pullback in the second and third quarters, consumer optimism is once again increasing and close to where it was in the first quarter of 2010. Even so, guests are telling us that they are still risk-averse. They're concerned about losing their jobs and focused on controlling household budgets, leading to increased coupon use and a focus on promotions. For everyday purchases, guests often choose the good items rather than the better or best items within categories. In turn, they use those everyday savings as justification to occasionally splurge on the best items in categories most important to them. This has created softness on better items in some categories, making it more important than ever for us to help our guests understand features, quality and value at every price point.

As we turn to 2011, we're working to provide the right assortment, great quality and low prices while delivering the excitement and newness our guests love. We continue to differentiate with our own brands, from value brands like up & up and Room Essentials, all the way to our upscale Smith & Hawken brand. In addition to our store collection, we've introduced an expanded assortment from this iconic brand on target.com, offering the highest quality garden and home products, including expertly-crafted teak patio furniture, copper pots and solid-forged gardening tools. The relaunched assortment incorporates many of Smith & Hawken's original designs, offering the highest quality at amazing prices.

We continue to offer limited-time programs that create newness and encourage our guests to explore our store. We recently completed the Great Save event, in which we offered great prices on bulk packaged stock-up items in a club setting with no fees. For the second year in a row, we saw great results with this limited-time program.

In 2011, we'll continue to create excitement and differentiate our assortment by offering limited-time collections from great brands and designers. In apparel, beginning in March, Target is celebrating the five-year anniversary of our fashion-forward and affordably-priced Go International program, with the Blockbuster Collection featuring 34 dresses from 17 past Go International designers. Guests will be excited to have a second chance to find the most coveted pieces from past Go collections and will have a unique opportunity to find all of these acclaimed designers and affordable looks together for a limited time.

Just in time for Easter, Target is launching a line of Godiva chocolates beginning March 13, featuring an Easter bunny and a collection of ice cream parlor-themed items. Prices on these delicious items will be amazingly affordable, ranging from $3 to $10. And beginning May 1, Target is partnering with Calypso St. Barth, a brand which has grown from a small resort wear line to a luxury lifestyle brand with 26 boutiques across the United States, St. Barts and Paris. Calypso St. Barth for Target features apparel and accessories for women, girls and babies, as well as home goods such as candles, decorative pillows, dinnerware, glassware and serving pieces. Prices for this collection will range from $2 to $80 and will be available in most Target stores and on target.com.

This spring in electronics, we're rolling out Target Mobile Kiosks and the electronics trade-in program to an additional 600 locations, bringing the total to approximately 1,450 stores by June. These kiosks provide guests the opportunity to work with a trained expert who can assist them with the purchase of cellphones and data plans from the nation's largest carriers. The kiosks also allow stores to offer a trade-in program that provides store credit usable for any Target purchase in exchange for used and working video games, cellphones, iPods and MP3 players.

In gaming, we're excited about the new Nintendo 3DS system coming this March. This is the first Nintendo release since the launch of the Wii system in 2006. This system will retail for $249.99 nationwide, and as always, guests who use their Target REDcard will save 5% on a Nintendo 3DS purchase, along with almost everything else sold in our stores and online.

This spring, we're launching a blue and white theme across multiple divisions and brands in Home, creating a differentiated and trend-forward look across our Home area. As part of this initiative, our in-house design team has created unique exclusive products for both our Room Essentials and Target Home brands, which will be presented in unique and compelling displays both on end cap and in line. We're partnering with Sabrina Soto, our Home Design expert, to educate guests on how individual items can be incorporated into existing looks, allowing them to refresh their homes without breaking their budgets.

As Gregg mentioned earlier, in 2011, we're continuing our ambitious effort to update our store base. Our 2011 remodels will incorporate all of the merchandising innovations from the 2010 program, including grocery, home, apparel, beauty and shoes. And later this spring, we'll add the Newborn/Infant/Toddler area to that list. We began testing this newest innovation in a small number of stores in July 2010. In these test stores, we removed the visual barrier between baby apparel and the gear and furniture area to facilitate cross-shopping. We created a new sleeping destination including cribs, bedding and accessories with larger floor-level displays. We moved all apparel on to the hanging floor pad, and we created a car seat and gear shop that's easier for guests to navigate.

Guests in these stores told us that the shopping experience was better, more integrated, intuitive and easy to shop. Based on this feedback and the financial performance of the test, we will begin incorporating this innovation into remodels that launch this March, and by year end, we expect to have it in more than 300 store locations.

Beyond our stores, we're investing in our online and mobile capabilities as well. At Target, cross-channel shopping, in which guests engage with us both in-store and online, is growing faster than either distinct channel. One of the primary enablers of cross-shopping is mobile phones. Mobile phone traffic at target.com increased nearly three-fold in 2010 and accounted for 8% of our online page views. We will continue investing to keep Target at the forefront of mobile retailing, and we're pleased that we were recognized by Mobile Commerce Daily as the 2010 Mobile Retailer of the Year.

Target.com had a great holiday season, growing faster than online industry sales due to increases in traffic, conversion and average order value. Our expanded free shipping offer played a major role in this performance as we expanded the offer to 950,000 items on orders over $50. And our target.com team is on their way to launching the complete reinvention of the website this fall. This new platform will place a premium on guest experience and will feature greater personalization, expert advice, navigation, product detail and a much more compelling visual content.

Before I turn it over to Doug, I want to comment on our efforts to mitigate the impact of commodity cost inflation. While cotton inflation gets the headlines, we're also seeing cost pressures in other fabrics along with food and other parts of our store. Our goal is to maintain our gross margin rates within categories by addressing cost pressures in a variety of ways. For example, we've performed research to determine which garment features are important to our guests and applied these insights to the product design and development phase to ensure we deliver quality garments with features that add value for our guests.

To our raw material strategy, we've standardized fabrics across multiple items and categories, allowing those to achieve greater scale and drive production costs down. And we're optimizing pricing and promotional plans within categories. While these efforts will mitigate some of the impact, in some cases, we will need to raise prices to offset higher costs. We will be thoughtful and strategic when making these changes, and we'll monitor the marketplace to ensure we continue to provide outstanding value.

Our focus on our guests is unwavering. We strive to stay ahead of her with an unbeatable combination of brands, exceptional quality and value and the ability to deliver a great experience and surprise her on every visit, both in-store and online. We're confident that this focus will create delighted guests and strong performance in the year ahead and well into the future. Now, Doug will cover our fourth quarter and 2010 financial performance and provide details on our outlook for 2011 and beyond. Doug?

Douglas Scovanner

Thanks, Kathy. In my remarks today, I plan to review our fourth quarter and full year 2010 financial results. Then I'll provide a view of our 2011 outlook for each of our business segments, including our new Canadian Retail segment. And I'll wrap up with a discussion of our objective to grow sales to

$100 billion or more and to at least double our earnings per share over the next six or seven years.

For the fourth quarter and full year, we produced EPS growth of 17.0% and 21.4% respectively, both of which exceeded our expectations. Our annual EPS of $4 eclipsed our previous record annual EPS performance by 20%. As a reminder, exactly a year ago, we outlined our plans for 2010 that supported our belief that the then current First Call median EPS estimate of $3.62 seemed like a reasonable single point estimate. Our actual performance exceeded this figure by $0.24 per share, excluding the net favorable discrete income tax items that added just over $100 million or another $0.14 of EPS to our results.

For the year just ended in our Retail segment, we met the sales and EBIT objectives we outlined at that time. In our Credit Card segment, we far exceeded them. Additionally for the quarter and year, EPS also benefited from robust execution of our share repurchase program. We invested almost $2.5 billion in repurchase of our shares during the year, and net of stock plan issuance, we reduced our shares outstanding by 40.6 million or 5.5%. In fact, we returned just over 100% of our net income to shareholders this year through a combination of dividends and share repurchase.

Our return on equity or ROE, derived by dividing our net income by beginning of year total shareholders investment, was a strong 19.0%. In 2011, we expect our shareholders will enjoy their 40th consecutive increase in annual dividends.

In our Retail segment for the quarter and full year, our sales were boosted by our two key growth strategies: PFresh remodels and the October national launch of 5% rewards. As expected, our Retail segment operating margins remained very strong, replicating EBITDA and EBIT margin rate performance for the quarter and year in line with our record 2009 performance. As I've observed many times, the key to future prosperity in our Retail segment is to rejuvenate our sales growth while generally maintaining our premier EBITDA and EBIT margin rates.

Fourth quarter penetration of our sales on our REDcards, our internal credit and debit products, was 1.8 percentage points higher than last year, precisely in line with our expectations for the period and representing the first significant increase in nearly a decade. So far, our national experience is a near-perfect replica of our earlier Kansas City test market experience in all material respects.

Our Credit Card segment continues to deliver superior results, far exceeding our expectations for the quarter and for the year. Our segment profit of $541 million for the year was $340 million or 169% better than the $201 million we earned in 2009. This drove the pretax return on the $2.8 billion of capital Target has invested in these assets to a record 19.5% for the year. Key measures of risks, including trends and delinquencies and trends in dollar-weighted portfolio FICO scores, continue to migrate swiftly in the right direction.

Now let's turn to our outlook for 2011. In our U.S. Retail segment, we continue to expect that our remodel program and 5% rewards will each contribute significantly to our comparable store sales growth, against the backdrop of persistently weak overall market growth in the U.S. for the kinds of goods we sell. In the case of PFresh, we expect this favorable contribution, net of the adverse impact of remodel disruption, to grow to a run rate of about 1.5 percentage points as we progress through the year.

Separately, we expect our 5% rewards program will grow more rapidly in its importance, possibly adding close to two percentage points to our same-store sales growth later in the year. Combined with an expectation that our base sales growth would remain slightly positive, this adds up to an expectation of a 4% to 5% increase in comparable store sales for the year. Obviously, this is well above our current experience and above any overall same-store sales growth we've experienced in quite a while. So if it were to unfold for the year, we clearly would expect stronger growth in the fall than in the spring.

Our forecast envisions essentially flat retail EBIT margin rates for the year as the decline in the Retail gross margin rate is expected to be offset by favorable leverage on both the SG&A and depreciation and amortization expense lines. Importantly, this offsetting balance for the year is unlikely to occur in the spring season and especially in the first quarter as we cycle against the strongest quarterly EBITDA and EBIT margin rate performance achieved in our modern history. In other words, given all that we know and expect regarding sales growth and timing matters, today, we would envision modest pressure on our Retail EBIT margin rate in the spring and modest favorability on this measure in the fall.

We expect to invest about $2.5 billion, plus or minus $200 million, in capital in the U.S. Retail segment in 2011, up modestly from the $2.1 billion we invested in 2010. This increase is driven in part by a larger remodel program and in part by modestly higher investment in future new stores as well. In our Credit Card segment, we expect receivables will continue to decline, although the pace of decline should begin to moderate as the year progresses.

Measures of our rate of profitability should remain very strong for the foreseeable future. In this segment, we've begun the process of identifying the right strategic partner to purchase our assets, fund our operations going forward and most importantly, to work together with us to optimize portfolio performance metrics while continuing to deliver credit products that exemplify our Expect More Pay Less brand promise. We'll update you from time to time when we have something to add. And at this point, I would only observe that we're pursuing a transaction that would remove the receivables assets from our balance sheet, preserve the integration of our card offering with our retail strategy and maintain our card operations, including all guest contact touch points. This process will most likely take several quarters to unfold, such that if a closing were to occur, we would expect to achieve it late in 2011 or early in 2012. The kind of transaction we have in mind, if closed, would produce a gain on sale, followed by an expected sharing in the robust economics this overall portfolio is likely to continue to produce over time.

Now let's turn our attention to our Canadian market entry and the effect it will have on our financial statements in 2011, specifically looking at our Canadian Retail business segment, the results of which will be segregated from our other segments beginning with the current quarter. As you know, we've agreed to pay a little over CAD $1.8 billion to control the destiny of up to 220 valuable leaseholds for space currently occupied as Zellers stores, and which will continue to be operated by Zellers for quite some time. We'll invest this capital in two separate closings in 2011, one in our second quarter and one in our third quarter.

We're currently deeply into a process involving scores of discussions with individual landlords to determine which leases we might want to assume and in partnership with our new landlords, invest all the capital necessary to convert into new Target stores. We're also considering which leases we might want to turn back to the landlords, which leases might be assigned to other retailers and which ones will ultimately remain as Zellers stores. Coming out of this process, we continue to expect to open 100 to 150 Target stores primarily in 2013.

Even though these dynamics are quite fluid at this time, I can share some detail surrounding the effects of our Canadian market entry will have on our 2011 financial results. There will be two direct effects and one important indirect effect. The direct effects will result from accounting, for SG&A expenses and from accounting for all aspects of the leases we elect to assume. The indirect effect is that our investment in Canada will cause us to slow down the execution of our share repurchase program in the short term. The primary SG&A components will include the portion of IT development costs that are expensed not capitalized and the compensation and benefits of the Target team members tasked with planning and executing this exciting market entry.

Separately, we'll begin to amortize the aggregate CAD $1.8 billion allocated to individual leases, primarily on buildings that we intend to convert to Target stores, and we'll begin to recognize interest expense and depreciation on leases for these sites that are capitalized. These lease costs will be partially offset by sub-lease income. Overall, SG&A and lease-related direct costs might add up to an EPS equivalent in the range of $0.10 for the year, an estimate that will surely continue to evolve as the year progresses.

GAAP requires that we recognize these expenses in 2011, even though they're in a very literal sense, important investments that will drive strong sales growth and strong EBIT growth in 2013 and beyond. Also as a reminder, if we were to assume any leases that were later assigned to other retailers or sold to landlords, there could be gains or losses recorded at that time.

Separately, the slower pace of share repurchase will cause modestly slow EPS growth in 2011, perhaps in the range of $0.05 to $0.10 per share, depending on the assumptions you might use. Combined with Canada-related expenses, this means that our best current estimate is that the aggregate effects of our 2013 market entry will create a $0.15 to $0.20 headwind on 2011 EPS.

With this in mind, let's turn to our outlook for aggregate 2011 EPS growth. We actually earned $3.86 per share in 2010, excluding the $0.14 impact of the income tax items we previously discussed. Net of all effects of our Canadian market entry, we still expect to be able to grow EPS from our tax-adjusted 2010 results into a range approaching or perhaps exceeding 10% year-over-year growth. Given its near term diluted impact, why are we so excited about our transaction in Canada? The explanation is quite straightforward. We strongly believe that several years out, Target's sales and EPS will be higher and our long-term growth prospects stronger with this transaction than they would be without it and instead bought back yet more shares.

As Gregg said earlier, with this transaction, we expect to exceed $100 billion in sales in the next six to seven years, and we believe our EPS will at least double in that same time period. This means we believe that our execution of our core growth strategy in North America will cause EPS to grow over the next six or seven years at a compound annual rate of at least 10% to 12% per year, achieving annual EPS of $8 or more by 2016 or 2017. Now Gregg has a few brief closing remarks.

Gregg Steinhafel

We're very pleased with our 2010 results, and we're energetically pursuing transformational initiatives that will drive performance in every part of our business. With a great team, millions of loyal guests and one of the strongest brands in retail, we're prepared to thrive in 2011 and for many years to come. That concludes our prepared remarks. Now Doug, Kathy and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of John Zolidis with Buckingham Research.

John Zolidis - Buckingham Research Group, Inc.

Question on the sale of the Credit Card. I was wondering if you could just talk about what some of the benefits are that you expect from selling it? You've talked about how profitable it was and how it's exceeded expectations. So can you just clarify for us why you think now is a good time to sell that business? And then is that -- should we assume that, that is necessarily going to be a dilutive transaction?

Douglas Scovanner

Lot of different issues wrapped up in that series of questions. Let me see if I can address all of them and follow-up if I missed one or two. Regarding your timing question, we think the timing is better now than it has been in three or four years for a variety of reasons. The performance of our portfolio is strong. The change in performance is headed in the right direction. The capital markets are much more receptive to an efficient funding of a transaction like this, and many banks have ample liquidity and are looking for interesting and exciting places to invest their capital in order to achieve growth objectives. So I think from a timing standpoint, this point, is better than any we've seen since late '06, early '07. Regarding the performance of our portfolio and the more important strategic question of why consider selling these assets at all, I think that over time, we have grown to believe that it's in our best interest, the corporation and its shareholders' best interest to remove the funding equation in some of the inherent volatility of results from our financial statements while retaining the expected benefit of a handsome profit stream that should be left over, that we expect to be left over, after meeting the needs of our partner. Probably most importantly, we believe that with the right partner engaged with our current financial services team, we should be able to either improve the performance of this portfolio or grow it faster or both over time. And we very much look forward to enhancing the prospects for growth and profitability in the portfolio with that partner. Did that cover the waterfront?

John Zolidis - Buckingham Research Group, Inc.

And then lastly, should we believe -- when we do the math, it turns out that this could be a dilutive transaction. Is that necessarily the case?

Douglas Scovanner

Depends on where you put the pencil down in your analysis. Certainly, if you stop at the level of selling the business, selling the assets, that is, and making some reasonable assumptions about funding and sharing and so forth, before application of proceeds, more likely than not dilutive. But of course, the application of the proceeds will give us an opportunity to take the equity capital portion that we had tied up in those assets and devote it to share repurchase, net of share repurchase may or may not be dilutive depends on the sharing relationship, and of course, it depends on the share price as well. The longer we continue trading at 6x projected 2016 or '17 EPS, the more beneficial share repurchase is.

John Zolidis - Buckingham Research Group, Inc.

So you can envision a scenario under which it's actually accretive?

Douglas Scovanner

Possible. It isn't going to be a big issue one way or the other in all likelihood. Possibly mildly dilutive, possibly mildly accretive.

Operator

Your next question comes from the line of Greg Melich with ISI.

Gregory Melich - ISI Group Inc.

Two questions. Could you just give us a number of what you think like-for-like inflation did to the comp last year? And Kathy, you talked about the plans on the rate strategy but what do you expect on that comp forecast that you guys talked about, what portion of it could be inflation?

Douglas Scovanner

Inflation, deflation was not a meaningful issue in our 2010 sales results. And while it's hard to say with any precision what it will be looking forward, obviously, we expect it to be a more meaningful contribution. I do resist putting a concrete number on it. There are too many variables right now for us to be able to make that prediction without misleading you.

Gregg Steinhafel

Yes, we are arithmetically calculated one time a year, and when we looked at the waterfront of our businesses some were deflationary, some were inflationary, and the net effect all in, was just a handful of basis points deflationary in 2010, just virtually negligible.

Gregory Melich - ISI Group Inc.

Don't you talk about that sort of 3.5% to 5% comp this year that it could be -- you're not assuming -- you assume that, that's the same this year?

Douglas Scovanner

No. The 4% to 5% same-store sales expectation that I laid out is an all-in figure. We're not going to be adjusting it. That's not a real increase that we'll adjust for inflation to be able to analyze it. That's an all-in figure from all sources.

Gregory Melich - ISI Group Inc.

And then secondly on the working capital, the inventory did rise, I guess, about 5% or 6% last year more than payables. Is that -- are we comfortable with that level? And was there basically, is that a trend we should expect, given the growth of PFresh?

Kathryn Tesija

I'm very comfortable with our inventory position. I think our in-stocks are in very solid shape, and we did have some opportunity there last year. This time of year also is one where we do a lot of different transitions, and so the year-over-year comparison is a little less meaningful than other times of the year. But I feel very good with the categories that our inventory is in, and yes, food does have a lot of it. And I'm pleased with our in-stock position.

Douglas Scovanner

Imports have as much to do with this equation than anything else when looking at the relationship between payables and inventory. Obviously, we take title much earlier in the process on imported goods than domestic goods.

Operator

Your next question comes from the line of Jeff Klinefelter with Piper Jaffray.

Jeffrey Klinefelter - Piper Jaffray Companies

Kathy, first question would be on price increases, price pass-throughs of inflation rather. We're observing in the apparel sector that some of those price increases are moving through, observed it specifically in some of the branded product in apparel and denim. Just curious, your strategy, will you let the national brand sort of lead this and then take private label and follow in order to kind of test consumer reaction in apparel? And then any comments in Home specifically on inflation? The second question would be on overall sourcing strategy. I know TSS, your internal sourcing, has been gaining or had been gaining share the last couple of years, which is a potentially a source of margin. Could you update us on that and the potential for that to offset some inflation?

Kathryn Tesija

Yes. So your first question in terms of apparel and branded versus own brands. Of course, we control much more of the costing in our own brands because we design them and we source them and with national brands, we're working with them to understand what their increases are and make sure that we're being fair and equitable with what we take. And where we can't offset that, whether that's with promotional optimization or clearance optimization, we have been passing some of that through, as we will with our own brands as that happens. But we do have many more levers with own brands in terms of offsetting that. For example, how the garment's constructed, our standardization of fabrics helps us not only improve the quality and the consistency of those fabrics but then also allows us to aggregate yardage with fewer mills and get better costing. And then there's things we're doing with the supply chain as well. So it's not necessarily that national brand is leading and own brand will follow. They both will happen as the need arises. And really, the same thing in Home. But you are correct in that the apparel national brand basic product has already happened. And then in terms of overall sourcing, we are continuing to increase our share of imports versus domestic products, up just slightly this past year. But with the growth of our own brands, which is ahead of our total comp, that does help our import penetration.

Jeffrey Klinefelter - Piper Jaffray Companies

Kathy, just to clarify, so that TSS penetration accelerating faster than your overall sales growth, that is a margin benefit for the company or one of those levers that can offset inflation? And then just to clarify in apparel, what kind of net cost increase are you expecting out of the category for the year?

Kathryn Tesija

It is a benefit to our gross margins, to import more through TSS so that is correct. And then we're seeing probably low- to mid- single-digit increases for the spring in apparel.

Gregg Steinhafel

Jeff, just one more follow-up. A lot of cost pressures this year, probably more cost pressures than we've seen in a very long time. Clearly, private brand penetration is one of those offsets we continue to be pleased, with the private brand growing in food and with up & up. So that's plus size. On the negative side though, there is some shifting of the mix. So I wouldn't read in a whole, a ton if our import plantation goes up by 50 basis points or down by 50 basis points. Over time, we think that it continued to grow very slowly but there will be periods where it's both up and down based on what's happening with the shift in the mix of businesses that we have and the strength of those businesses.

Operator

Your next question comes from the line of Deborah Weinswig with Citigroup.

Deborah Weinswig - Citigroup Inc

Gregg, you talked a little bit about the jeans and consumer shopping patterns this holiday season. What did you learn from that? And not to share any secrets of hot [ph] holiday 2011 but what might you do differently as a result?

Gregg Steinhafel

Well, I think the learning. It's really not surprising that every year it is a different season, and you have to develop a good plan but be prepared for unanticipated changes in consumer sentiment, the use of technology, mobile devices and things like that. So we expect it to always be competitive. This year, we had a very strong beginning and start to the season. And we pulled some of those December sales forward. So we're focused on really understanding the guest research and their shopping patterns week-by-week all throughout November and December and trying to customize and tailor our plan to make sure that we are delivering the right kind of incentives and excitement that is consistent with what they are expecting in each of those weeks. Sometimes, they're very value-focused, sometimes they're very convenient-focused. Sometimes, they're in planning and preparation mode. So we're really trying to dissect the season and be more thoughtful in terms of how we market and approach the season on a week-by-week basis.

Deborah Weinswig - Citigroup Inc

And then Kathy, can you talk about the performance you've been experiencing recently in the hardlines and Home categories and initiatives that you have there in 2011 to maybe jump start the sales there?

Kathryn Tesija

Yes. So as you know, sales have been more difficult in those two businesses than the rest of our portfolio. And in hardlines, I would say that it's mostly centered around the electronics and entertainment categories. I am excited about some of the new releases that we have coming up early this spring. I mentioned Nintendo 3DS, which is the first platform from Nintendo since 2006. So that should be very beneficial for Target since we over-indexed with Nintendo being more family-focused and young kids. And in Home, it's been really a mixed bag. We've seen some strength in housewares and certainly in our stationery and holiday categories. But we're still having some difficulty in domestic and part of the deck home business. So also within those categories, I think we're seeing some great results in our good product or opening price point when you look at Room Essentials and some of the things happening there. At the same time, we're seeing great strengths in the top end, things like Calphalon has been performing very well or KitchenAid or Keurig. So we're definitely seeing some more action in Home but it's still under-performing the rest of the company.

Operator

Your next question comes from the line of Peter Benedict with Robert Baird.

Peter Benedict - Robert W. Baird & Co. Incorporated

Couple of questions. First, the 4% to 5% comp plan for 2011, Doug, just maybe any more granularity in terms of how you expect that to flow through the quarters. February maybe a comment there, how that's trending versus the low-single-digit plan? And then what does this earnings guidance you've laid out for 2011, what does it assume in terms of the amount of buyback that you will ultimately do?

Douglas Scovanner

As I tried to lay out in my remarks, if we actually end up in the 4% to 5% range for the year, we would expect to be lower in the spring than in the fall, not because of some economic crystal ball but primarily because of the contribution differentials, spring versus fall of those core strategies PFresh and 5% rewards. Much more specifically, I said that we expect PFresh to be about 1.5 for the year. It'll be certainly less than that in the first quarter and in that range for the balance of the year after the first quarter. Separately, as you know, 5% rewards, the contribution to our sales will build like a freight train as more and more and more households request the cards and begin using the cards driving incremental sales. So I said in my remarks that we think that, that increment might approach two full percentage points by the fall. It was only one full percentage point or $200 million, net of effect of the discounts in the quarter just ended. So think of that as a data stream that grows smartly from one today to two in the fall. And really the only comment I'd make is the fourth quarter will be a little lighter year-over-year than, say, the third quarter because of A, natural seasonality; and B, we'll be in year two, not year one by the time we get to the fourth quarter. So pull all of that together, it means I would expect that our aggregate same-store sales performance will be lowest in Q1 and lower in the spring than in the fall. Separately in Q1, as you recall from my remarks, we're cycling against the highest quarter in modern history measured in Retail segment EBITDA and EBIT margins. So clearly, we have a taller EPS challenge staring us in the eyes here in the next 90 days than in the other quarters. Share buyback, we, in round numbers as you know, we bought back about $2.5 billion, we invested $2.5 billion, that is to say, in share repurchase in 2010. The 2011 figure will be lower. It's certainly not sharply lower but depending on the progress we make in executing our business plan for the year, maybe it ranges in the $1.5 billion to $2 billion bracket for the year.

Operator

Your next question comes from the line of Dan Binder with Jefferies.

Daniel Binder - Jefferies & Company, Inc.

Just wanted to just touch on two things. First on your earlier comment about certain areas or certain categories where the better business has been tougher. I was wondering if you could elaborate a little bit more on which categories those are? And are you changing the mix to this year to adjust for that? And then on the consumer electronics space, which has been a really difficult area and I know is very product cycle-driven, are you starting to give any consideration to that area of the store, the type of space allocation you give to areas, particularly like packaged media? And then finally on the Gogo International, it seems like you're really pulling together your best designers and just kind of curious what your expectations are, if you're willing to share it from a comp perspective on that front? I think that was three items, I apologize.

Kathryn Tesija

All right. Let's start with the first, the better section being somewhat softer than good or best. I think we see that, in a few areas of the store, the one I would point to really is Home, where we're having incredible strength in the good brands that we carry things like Room Essentials, and we're also having fantastic response in the best, things like Calphalon or KitchenAid or Keurig as I mentioned earlier, Caldrea. But in the better area, things like our Home brand have been a bit softer, and so I talked about some of the things that we're doing: one, making sure that we are very clear about the benefits and the features of those products so guests understand when they're stepping up in price why that's worth it to them. And then also infusing more trends, so I talked about our blue and white trend statement that we're doing this spring, which will go across many categories in the Home area, and I think bring some freshness there and innovation in terms of not only the color and how that's infused in decorating but also within print and pattern. In terms of electronics and space allocation, it's still a very productive part of our store even though we have had issues with sales in some categories and even in the Packaged Media, still a very productive area. So we have cut space there over the past several years, and we will always be evaluating and looking out over the next five, 10 years to anticipate what those sales will be like and what kind of space we need. But I don't see any large changes happening there at the moment. I guess what we've sort of lost on the packaged good side over the year, we've picked up in the digital side within the electronics business. And so all-in-all, the space still remains in that area of the store. And then in terms of Go International, I don't have a comp for you but obviously, this is the frosting on our cake, it's the most fashionable product that we carry, and so it certainly won't compete with our core items in terms of volume but it does add an enormous amount of excitement, particularly for our young, very fashion-forward guest.

Operator

Your next question comes from the line of Charles Grom with JPMorgan.

Charles Grom - JP Morgan Chase & Co

Doug, just wanted to clarify your guidance for the full year. Did you say 10% off the $3.86, does that include or exclude the $0.15 to $0.20 from Canada that you expect to incur?

Douglas Scovanner

I said a range surrounding 10% off of the $3.86, and that is net of the $0.15 to $0.20 adverse impact of Canada.

Charles Grom - JP Morgan Chase & Co

And then in the fourth quarter, gross profit margins were down about 40 basis points, and it sounds like that's mostly PFresh and 5%. Is that a good proxy for 2011 when we look at the gross profit line?

Douglas Scovanner

Actually, let me clarify the comment about the Q4 2010. The combination of the impact of PFresh and 5% rewards adds up to more than the gross margin rate decline. So net all other factors, we're slightly positive, and therefore, as an outlook, particularly as these strategies build to more importance in 2011, the combination of the two will be larger not smaller than 40 basis points.

Charles Grom - JP Morgan Chase & Co

And then, your allowance for doubtful accounts at the end of the fourth quarter as a percentage of average receivables is about 10%. If you go back to in '06, '07, that was in the range of like 7% to 8%. Where do you think you get to by the end of 2011?

Douglas Scovanner

That's a heck of a question. Certainly, the risk trends, as I mentioned, are moving in the correct direction and rather swiftly, so it's fairly easy to see that the allowance as a percentage of receivables will naturally decline in the next couple of quarters. What might happen after that is a little more speculative because obviously, today, we can see, for example, as every credit card operator can see, the migration from current to one month past due and one month past due to two and so forth, and we have lots of internal science to be able to predict write-offs out three to six months. There's nothing in our current portfolio measured metrics that would tell us where those statistics will be in Q3 or Q4. But clearly, we're headed in the right direction, and it is certainly within the realm of possibility that we could get back to the level of experience you just described by this year end.

Charles Grom - JP Morgan Chase & Co

And just to John's earlier question about the profit stream that you could potentially retain, I mean, could you give us a range of what you think you could, in a perfect world, retain if you were to sell it in the fourth quarter of this year?

Douglas Scovanner

It's premature to speculate on what that looks like because it's premature to speculate exactly how the sharing will occur, said in much more straightforward terms, a partnership arrangement where we each have, where the partner has more skin in the game, would naturally be a partnership arrangement where the partner would have a much greater share of the potential upside. So in the more robust times, that kind of arrangement would leave a little more with the partner and a little less with us but the mirror image of that of course is, in thinner times, the differential for us wouldn't be as large. So it's a trade-off that we'll need to analyze together with individual partners to decide how much volatility we want to embed into our financials versus how much we'd want in the way of projected profits in the more robust times. Every credit card transaction executed by retailers with partner banks has these features. We're no different from anyone else in being at the beginning of exploration of how to analyze those trade-offs.

Charles Grom - JP Morgan Chase & Co

And then last question on February, you guys outlined positive low-single-digits, I believe, a few weeks back. Do you guys still feel pretty comfortable at that range?

Douglas Scovanner

Yes.

Operator

Your final question comes from the line of Bob Drbul with Barclays Capital.

Robert Drbul - Barclays Capital

Here's the first question that I have is, when you look at the comp trends over the last couple of months, I guess including February as well, can you just let us know why you're so confident in the 4% to 5%? And I think when I look at the metrics that you gave us around Kansas City, could you share with us the comp in Kansas City?

Douglas Scovanner

First of all, I don't think I used the word confident in the same sentence as the 4% to 5% so let's start from scratch. If we're confident about anything, we're confident that the two sales buildings strategies that we've launched, PFresh and 5% rewards, are working as advertised and contributing significantly to our same-store sales performance. Yet in contrast, I mentioned earlier that the U.S. market, for the kinds of goods that we sell, is not enjoying robust growth. I think that we certainly -- I don't often comment on competitor's information but we certainly saw earlier this week that the largest player in the marketplace had yet another quarter of very slight negative same-store sales. I think a lot of people are picking on my big brother. I think that's much more a reflection of what's happening in the macro economy to them and to some extent to us than having anything to do with their stumbles. That's as far as I'll go in analyzing their results. But for the record, I think that was a positive comment, not a negative one in terms of the challenges that they face and how they're addressing them. So I think the wildcard here, Bob, is what happens to the U.S. economy and while unemployment remains stubbornly high, we're not likely to see a robust base performance in our numbers. So there is clearly an expectation of that base performance remaining modestly or slightly positive that would get us into the 4% to 5% range for the full year, much more confident about the contribution of our strategies that we control than any confidence we'd exhibit about the macros and how that will play through the consumer.

Gregg Steinhafel

Yes. I'll just add in addition to the unemployment, as you know the housing market still is not healthy and is a big challenge, and there is some very strong early signs of inflation that we've already talked about in terms of product categories from apparel and soft home and food. But the impact on discretionary spending with the pressure that's coming with rising energy prices can be a dampening effect on the broader economy. So as Doug said, we are confident in PFresh. We're very confident in 5% rewards. We have far less confidence about the underlying base macro environment that will affect all retailers in a like manner.

That concludes Target's Fourth Quarter and Year End Earnings Conference Call. Thank you all for your participation.

Operator

Thank you for participating in today's conference call. You may now disconnect.