First, I want to thank all of you for dialing in this morning. While we would have loved to have seen you in New York today, given the circumstances we wanted to make things easier for out of town travelers who might want to stay closer to home.

For the first part of the meeting, John, Michael and I will walk you through the highlights of our recent performance, the continued evolution of our long-term strategy and our outlook on the future. After that, we'll open things up and take your questions for the balance of the meeting.

Again, I want to thank you for your flexibility and look forward to an engaging conversation with all of you this morning. And with that, let's get started.

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By any measure, 2019 was another very strong year at Target. You've seen that in our financial results and in the media coverage, but it's this chart that really tells the story. Trace those bars back to this very meeting three years ago. That morning, we said we'd invest more than $7 billion in capital to reengineer our supply chain, to re-imagine our stores and to reinvent our own brand portfolio.

We said, we'd take $1 billion in operating income and invest in our team and our pricing. And we said this while many others were headed in the opposite direction; closing stores, cutting jobs, trying to save their way to success. But we've never been the kind of company the follows the herd, and this was no time to start. But we also weren't placing bets just to buck conventional wisdom.

We had every reason to believe this would work, because we've been doing our homework; testing these bets and listening to our guests. And for them, stores were dead. They were just boring and uninspiring. Our guests still loved our brand. They just wanted us to do more. And it was this dose of tough love that inspired our team to redefine the Target Run and change the future of our company. We started by unpacking the big questions.

What would it take to combine the hallmarks of the physical experience, discovery, inspiration and service with the ease, convenience and personalization made possible through digital? In an age of AI and robotics, where do people fit in? When everyone's talking endless aisles, what's the role of curation? In an on-demand world, could digital ever become more than a drag on the P&L?

There were lots of theories, but nobody had the answers. And there certainly wasn't a playbook. So, we started writing our own. We set off on a different path. We used our purpose as a guide and the rest is now history. Today, nobody's doing what Target is doing, nobody. Target is a category of one. In three year’s time, we have redefined the Target Run.

We’ve built a durable financial model that consistently drives top line sales and strong and sustainable bottom-line growth, and today Target’s among the top performers on retail’s leaderboard, a competitive position we intend to keep for many years to come. While our teams love to win, they’ll tell you the same thing.

We’re proud of what we've accomplished, but we’ve got to stay humble and we’re going to stay hungry if we want to stay ahead. That means ensuring our winning strategy continues to evolve as we test, as we scale, as we refine our multiyear initiatives constantly challenging ourselves to develop new pathways for growth and innovation.

If you look at our playbook, we've done just that by elevating the shopping experience and winning with high touch service, by curating and scale across our multi-category portfolio, a great mix of our guest favorite national brands and Target exclusives. And of course by delivering ease and convenience with the most comprehensive set of fulfillment capabilities in the industry. Each piece of the strategy is working, creating value for our guests, differentiating us from our competition and delivering profitable growth and consistent returns for our shareholders.

So I thought I'd start today talking about our progress where we’re investing and what's next? John Mulligan will share a deeper look at how we’re driving stronger operational performance. And then you'll hear from Michael Fiddelke, our new CFO, who will share his perspective on the business and our outlook for the year ahead.

I had a brief opportunity to introduce Michael during our Q3 call, you should know, like John, he's an engineer by training whose heart belongs to finance. In his 15 years with the company, he's worked in every part of the business tackling many of our most stubborn challenges, conquering them all with a rare combination of logic, curiosity and grace. I’m confident that as you get to know Michael, as I have, you'll see he possesses all the qualities you’d want in a leader for a role like this.

And with that, let's dig a little deeper into the business. So you’ve heard me say many times we’re putting our stores at the center of our strategy. In the last three years, we’ve spent more than $4 billion remodeling our stores, completing hundreds each year, transforming them to showrooms, fulfillment hubs and service centers. With these projects, we’re seeing an average sales lift between 2% and 4%, and we're getting smarter with each cycle; enhancing the shopping experience, driving operational improvement and driving down cost through efficiencies of scale.

I can't tell you how many times I've heard guests say how much they love the broader range of merchandize and all the new categories we're putting in these stores. The truth is we're not adding categories, we're not adding SKUs. In fact, in many cases, we're taking them away. But it's the way we've crossed merchandize product and the improving presentation that's making these stores more inspiring and easy to shop.

We've also continued to grow our store network, opening about 30 new small format stores each year in key urban markets and college campuses. And just like our remodel program, we're fine tuning our approach with each project. Like any new neighborhood, you have to really live in it to figure out the daily rhythms and routines. In Tribeca, for example, we knew there would be a steady stream of office workers over the lunch hour and tourist on weekends, but we didn't realize just how much room we'd need to accommodate all the double jogger strollers in our aisles. Trust me, they're huge.

So we spent a lot of time flexing our merchandizing, replenishment and operation strategies to match the unique shopping patterns in each store. Collectively, these stores are well past the $1 billion threshold for annual sales. Per square foot, they're much more productive than our average stores. And if you're watching these closely, you might detect a new trend. We're opening up Target stores in America's most iconic tourist destinations; Times Square, Disney World and the Las Vegas Strip, because we learned from our store at Herald Square.

There are few places that help travelers feel more at home than Target. Bringing these stores to the center of our strategy goes a lot further than the physical experience or proximity to our guests. Stores give us the opportunity to make human connections with tens of millions of guests who shop each week. So we've reinvented our store model. We're investing in high touch service, using technology for task-based work and giving our people the time and training they need to better take care of our guests.

From the industry-leading commitments we made on wage to the expansion benefits, like family leave, we're incredibly proud of the investments we're making in our team. Today, Target is an employer of choice and an even better place to build a rewarding career. In 2019, we promoted more than 6,000 people and invested almost 7 million payroll hours in training. This is an organization designed for advancement.

In fact, almost 500 of our store directors started as hourly team members on the sales floor. Almost half of them are women. They're leading huge teams, multimillion dollar businesses and serving as leaders in their communities. Last year, the average store director earned about $182,000. These are good jobs, these are important jobs and we're more committed than ever providing the development opportunities to help our store team members thrive.

When you look across the retail landscape, department stores, discounters or DTC, there's not a single competitor with a category mix like ours; five key categories, each generating roughly a fifth of our sales, a healthy balance of guest favorite national partners and a robust portfolio of brands all around. Said another way, we are a category one. But the real key to our success has been our unbending focus on building an assortment our guests can't find anywhere else.

Since 2017, we have rolled out dozens of new owned brands. They've generated billions of dollars in sales, sparked excitement in the marketplace and helped our guests fall in love with Target all over again. And the year-over-year growth has been phenomenal, so you're probably wondering, Brian, what's the secret? Well, the truth is we've always had a world-class product design and development team. What's changed is our approach. We've gone from designer brands for our guests to designer brands with them. Let's take a look.

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I've spent 30 years working with CPG companies all over the world, and I can tell you I've never seen this kind of care and connection anywhere else. In fact, this approach is what earned Target a top spot on Fast Company's list of the world's Most Innovative Companies. And this philosophy was a driving force behind our new brand, All in Motion, a brand created with everybody in mind. Of course, own brands are only one-prong of our assortment strategy.

In 2019, we struck premier partnerships with two of the most recognizable brands in the world; Levi's and Disney, and we're attracting more and more new brands across the assortment, including most recently Boar's Head in food. We also continue to be the preferred distribution channel for America's most innovative DTC brands; like Harry's, Native and Quip who seen Target platform as a launchpad for scale and mass-market appeal.

When companies like P&G, PepsiCo, L'Oreal, Dyson or Mattel want to introduce innovation to the market, Target is the first call on their list. Add it all up, these partnerships combined with our 20-year legacy of limited-time-only collaborations make Target the retailer of choice for great companies who want to extend their reach and see their brands shine.

Perhaps the most game-changing element of our store-centric strategy is our approach to fulfillment. It wasn't that long ago that a Target Run involved a handwritten shopping list and a sunny afternoon with a shopping cart. And spoiler alert, millions and millions of guests still really, really like to do that when they have time. But sometimes they don't. That's why we’ve built the most comprehensive suite of same-day services in the marketplace. Now you can put tens of thousands of items in your basket, in your trunk or on your kitchen table within a couple of hours max. It's really that simple.

Of course, Professor Mulligan will walk you through the economics and believe me, they’re incredibly favorable compared with any other option in the last mile system. But beyond cost, frankly, more important than cost we’re changing consumer behavior with same day. Same-day shoppers are making more trips, spending more money and putting Target first in their consideration set. You could call it our very own operations-based loyalty program.

Today, our guests are letting our team pick the bulky stuff, like bottled water and paper towels and then they're coming in to shop the categories that are just a lot more fun. Once a guest tries a service, three out of four times they’ll do it again within three months. In fact, our adoption rates are continuing to outpace expectations. In 2019, pickup was up almost 50%; drive-up more than 500%. And today, we have more than 100,000 Shipt shoppers delivering orders for Target in almost 100 other retail brands.

When you pull back the frame, what we’re really after is ensuring that Target is our guest’s first choice no matter what's going on in their lives on any given day. And to do that, we had to focus on the entire end-to-end experience, not just a store trip or a digital trip but new ways to lace them together.

If you talk to our friend Kevin Johnson over at Starbucks, he's really clear. They are investing to create great experiences based on occasion. Sometimes you’re on the run; order in the app, skip the line, grab the drink. Sometimes you’re on the road. You got time to kill. Starbucks is a pretty great place to hang out. Kevin will tell you, you have to design your experience to fit either occasion. At Target, we see the world exactly the same way. It's our job to create the kind of experiences that inspire our guests to spend a couple of hours or a couple of seconds and that's exactly what we're doing.

So let me give you an example of how this plays out in real life. I know a lot of you are parents. Your kids are heading off to college, probably terrific schools, maybe out of state. So let's say your daughter got accepted at Emory; great school, right outside of Atlanta. Now you can either hit a Target in North Jersey, pack up the SUV and drive south or you can order literally everything on target.com and have it delivered to campus.

Or you can order a six-month supply of essentials, pick them up at our store near campus then spend moving weekend shopping for dorm room décor. A couple weeks later, you can send her anything she needs via Shipt. Whatever you need, we have you covered. These physical stores and digital platforms are seamlessly working together.

Three years ago, we set out to become America's easiest place to shop. And today, we are. So you can see a lot of progress, a lot of momentum. This work has created a renewed sense of guests love and loyalty, and it's translating into tangible financial results on the top and bottom line proving each quarter that our durable model works.

I showed this slide up top, but I'm happy to show it again. 11 straight quarters of positive comp growth, but what could get lost in this view is our total revenue growth. Between 2017 and 2019, we grew the total revenue 5.4 billion. Dig into those numbers a bit further and you see broad market share gains in multiple categories.

Over the last three years, we've captured more than $2.5 billion in apparel and beauty with almost 1.5 billion coming in the last year alone; baby, essentials, food, electronics. Since TRU's market exit, we have picked up more than $1.7 billion in toys and baby and there's not a day that goes by where you don't see a headline predicting another share donation to Target from a struggling competitor.

And then there's this chart, which I think is remarkable. For six years running, digital has grown at least 25% each year. And given the magic of compounding growth rates, since 2014 we have double the business and then nearly doubled it again. More and more guests are gravitating to our more cost advantage fulfillment methods. In fact, today, our stores are filling 80% of the digital volume, which is relieving a lot of margin pressure despite the aggressive sales growth. And that's just one example of how we're managing growth with a keen eye on profitability.

When you look at our ROIC for the past three years, you can see strong, efficient and responsible growth in this key metric. And finally, like this first chart, our bottom-line story looks a lot like the top. Our model is churning out steady EPS growth quarter-after-quarter, year-after-year and healthy returns for shareholders as well.

Up next, John and Michael will share more about our long-term confidence in our model, how you can expect to see low single-digit sales growth, produce mid single-digit operating income and high single-digit EPS over time. They'll also give you a sense for where we're going to continue to invest to fuel this momentum and propel our strategy forward. And without stealing their thunder, I'll tell you, because of our results, because our strategy is working, we're going to keep investing in each piece.

For example, in addition to our remodel work, we're going to start testing new ways to re-imagine the front of store experience not only to create a more engaging and inspiring first impression, but to enhance guest service. With small formats, we're starting to explore for new ways to shrink the box even smaller, half the size of our smaller stores so we can fit into even more spaces around the city.

With same day, our teams are going to work around the clock to optimize the experience for ease and convenience. Today, Target can put a gallon of milk in your fridge but not in your trunk. In 2020, that's going to change as we start to test our fresh pickup and drive-up capabilities and scale as we go. When you think about curation, you'll see more investment in our brand management capabilities.

We'll continue creating new brands when whitespace opportunities arise, like you saw with Open Story, but we'll also focus on building equity in our more established brands and ensuring they continue to thrive, continue to expand our assortment across key categories in Good & Gather or ensuring Cat & Jack which is now in year four continues to evolve with the trends.

In electronics, a category dominated by a few global players, brands really matter. So we're rolling out plans to transform the physical environment to give them a bigger stage. We'll create more interactive experiences that allow our guests to play and explore. As we think about curation in the digital space, we'll also continue to expand our digital offering to Target Plus, but we're taking a very different approach with this third party marketplace than others in the industry.

As a brand built to serve busy families, our guests have a good idea what they can expect to find at Target and what they won't. If you're looking for farm equipment, Target's probably not your spot. That said, we have a lot of parents whose kids play baseball. We see it in our search data every day. And if you were to visit our store, you'd see a carefully curated selection of bats and gloves. But if you're looking for more specialized equipment, you have to look elsewhere until now.

With Target Plus, we can partner with Mizuno, one of the best brands in baseball and they'll fulfill the order correctly. Mizuno is just one of nearly 100 brands we brought onto the invitation-only platform, each one carefully vetted and aligned with our high standards. No question about authenticity or origin. Target Plus is just another way we're using what we know about our guests to offer them more value in the shopping experience.

Another is Target Circle. We rolled out this new loyalty program in October and it already has more than 50 million members. Many of you are already familiar with the program. Guests opt in for personalized deals, earn 1% back on purchases and points that let them direct charitable giving in their community. No membership fee required.

In the year ahead, we'll build an even deeper relationship with Circle members and our offers and promotions will only get more meaningful and personalized as we go forward. And that concept is a good one to end on. Because if you think about what we've accomplished during the last three years, the most important thing we've done is strengthen the relationship we have with our guests. It's a relationship rooted in trust and integrity.

We understand what a privilege it is to be welcomed into their family's busy lives and what it takes to honor that responsibly every single day. And it's because of the strength of our relationship that we've earned the invitation to keep creating new products, services and solutions that will keep inspiring our guests to make that Target run today, tomorrow and well into the future.

John Mulligan

Good morning, everyone. As you heard from Brian, the path we've set for Target is different than what you see across retail. We designed a strategy around the unique capabilities that set Target apart, have built an operation to support our durable financial model. It's all about having the right assortment with great service and easy fulfillment options that keep our guests coming back.

The difference maker for us, our stores. We put our early 1,900 stores at the center of how we offer inspiration and convenience. As you know, we spent the last few years investing to do that, from opening new stores to making our existing ones work harder. In 2019, we continue to scale those capabilities.

We opened small formats by the dozen and completed remodels by the hundreds, just like the year before. We expanded same-day fulfillment options to millions more guests, took our new operating model to every store and got more automation, robotics and artificial intelligence throughout our supply chain to help our stores run better than ever.

By leaning into our stores, we've emerged as an omni-channel leader with competitive fulfillment options and a differentiated store experience. This year, we'll take it to the next level and use our foundational capabilities rooted in our stores to serve guests in new ways. We'll get closer to new guests, continue to elevate the store experience and redefine ease and convenience to serve guests in ways no one else can.

Remember when we opened just one small format store back in 2014 and then opened only a few more the next year, we took it slow to learn and build the right foundation so we could scale though stores successfully. We refined how to find sites that balance population density and local needs. We've built a process to localize the assortment for each neighborhood, but at scale. And we reoriented our supply chain to replenish these stores as the backroom space got smaller and smaller.

Because of those learnings, we keep growing. We plan to open about 30 of these stores a year for the foreseeable future. And this year we'll open nearly three dozen, making 2020 our highest year ever for small format growth. We'll keep expanding in key markets, like New York and LA and we'll reach new guests on campuses making shopping even easier for Boilermakers and Georgia Bulldogs. And for our resident Hawkeye fan, Michael Fiddelke, we'll open our doors right off the Ped Mall in Iowa City.

Every small format store is unique and comes with its own set of complexities, but we've built the capabilities to be successful in a wide variety of sites and sizes. This year, we're exploring designs that redefine our idea of just how small our stores can be. I'm not talking about new format, but another turn of the dial gives our strategy even more flexibility to reach new guests.

While our smallest location today is about 12,000 square feet, our team is exploring sites half that size. Think a convenience store size box nestling neighborhoods across Chicago, Philadelphia or New York or right in the middle of a bustling campus. We're still in a space to offer the categories guests want from Target, like beauty, home and grab-and-go food. This design could open up hundreds of additional site options to serve even more people in new trade areas, and to give guests a nearby pickup spot for online orders.

We expect to sign the first lease of this kind this year with plans to open and test in 2021. And just like our first small formats, we'll go slowly at first to learn and refine before moving faster. While we're opening new stores, we keep remodeling the rest of the chain to modernize the in-store experience. We've topped 700 remodels over three years and this year we'll expand the count to 1,000.

Guests tell us they love our store design after remodel and the sales lift prove it. Beyond the average 2% to 4% lifts we see in year one, we're seeing over a 2% bump in year two. Not only are they buying more, they're adding more discretionary items to their baskets and it's giving us a meaningful improvement in gross margin rate that we hadn't planned. In 2021, we'll continue to remodel stores but we'll right-size our pace to touch 150 to 200 stores every year going forward.

Beyond our remodels, we're continuing to test new design elements like our latest front of store concept. The moment a guest walks in a store, our layout sets the tone for the rest of their trip. So we redesigned that first impression to be even more welcoming with fresh flower displays, hot coffee and relevant products to create a friendly greeting right from the start.

We've also lowered walls and removed counters to make it even easier for our team to connect with our guests and offer help, from registry and returns to pick up and checkout. We're testing this design to learn first, like we always do, before applying them to our remodel efforts going forward.

Our store investments will never be done, but the remodel itself is only part of our strategy. In a digital age, we need to give guests a compelling reason to come into a store and shop. For us, it's wrapping store design, compelling product and guest service together to create an experience that you can't get online. And at the heart of that is our team, which is why we invest in them year-after-year.

We continue adding millions of paid training hours to help our team build deep retail knowledge and skills and we're on track to reach a $15 starting wage by the end of this year to keep attracting and retaining the very best talent. But beyond training and pay, we've long seen the potential of engaging our skilled and passionate team to make a difference for our guests and manage the growing volume moving through our stores.

To do it, we fully rolled out a new operating model to all stores last summer. This change meant that more than 300,000 people got new roles, new titles and new routines. It was without a doubt the largest organizational change in our company's history. In a world where technology is everywhere, we know our guests are looking for help and human connection while also craving even more ease and convenience in their lives.

So we redefined what it means to work in a Target store to better serve an omni-channel guest with expertise and ownership that leads to really great service, and tools and tech that knockout the task so our team can take better care of our guests. As much as I could try to give you a picture of that philosophy, I think our team can say it much better themselves.

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Just six months in, this new model has shown tangible proof in guests' satisfaction. During our busiest time, the net promoter score for our Black Friday experience rose 12 points over last year, because of team was staffed and trained to help guests find products and checkout quickly.

Led by our new Chief Stores Officer, Mark Schindele, a 20-year veteran leader across operations, our teams will always be refining what a truly guest-focused service model looks like. They'll bring even more joy to our guests while streamlining how we keep shelves stocked and backrooms organized.

This new operating model is also how we enable our growing suite of fulfillment services from drive up to pick up and delivery from Shipt, our stores are serving up a whole range of options to meet guests however they want to shop and as soon as an hour.

Last year, as you know, we made our same-day options available to millions more guests. We took drive up even further, now in 1,750 stores across the country and this year we'll turn it on at many small format stores with parking lots to make shopping even easier for local guests.

Remarkably, even as drive up grew more than 500%, sales from our more mature order pick up services rose nearly 50% and a third of the time those pick up guests made additional purchases when they came inside.

We also continue to grow Shipt same-day delivery offering with 2.5x the sales from the year before. And we integrated the delivery option to our target.com checkout. Now guests can use their RedCard to get 5% off and pay per order if they don't have an annual membership.

Outside of Target, Shipt continues to establish itself as a leader in the delivery space. It's steadily growing its membership and broadening its marketplace of regional and national retailers, which now include Petco and CVS. Shipt's momentum shows the growing consumer demand for fulfillment in minutes, not days.

At Target, sales fulfilled by our same-day options grew more than 90% last year, far outpacing the demand for shipping and drove the majority of our digital growth. And because all of our same-day services have better economics than two-day shipping, our average fulfillment cost per unit has come down nearly 25% over the past year and that's played an important role in our margin performance.

The engine behind our same-day operation is no doubt our stores and more than 300,000 people running them to serve our guests every single day. There's no one else who will run an order out to your car in less than two minutes and throw in a Good & Gather sample just to say thanks. And our guests are loving our same-day options, because they make an extra Target run that much easier. Take a look.

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This convenience is giving our guests new reasons to shop at Target. Last year, nearly one in three people who placed a same-day order had never been shopped on target.com. And our existing guests are shopping us more frequently.

On average, nearly a quarter of our drive-up sales and all of our same-day delivery sales are incremental, which shows that as we give guests new ways to shop with us, they’re actually spending more.

Combining our curated assortment and great service with the ease and convenience of get it an hour has brought guests to shop us more often. No one else is doing that at scale, like we are and it is building loyalty with our guests that will sustain our growth over the long term.

This year, we will expand our assortment so our services are even more essential and fit with how guests are shopping at Target. Time and time again they tell us they love drive up, but it sure would be nice to pull up for their order and a gallon of milk, not to mention adult beverages. Order up to six pack and chips on the way to a party or a bottle of wine to go with a box of diapers and crying kids in the backseat, our guests want that option.

Starting this spring, we’ll test a curated assortment of fresh grocery and adult beverage items available for order pick up and drive up. We’ll start in a few states and learn how to do it well before we scale fresh pick up to nearly half of our stores, and take adult beverage to the majority of the chain all by fourth quarter, just in time for holidays with the in-laws.

All of this is possible because of the supply chain investments we've made to support our stores, so they’re both shopping destinations and fulfillment hubs. That only works when there’s a solid replenishment operation behind the scenes, sending stores the right amount of product when they need it and simplifying how it moves from truck to shelf.

Using our stores as local hubs continues to be the right strategy for us. You heard Brian say that our stores today are handling about 80% of our online volume, and for Target that's the sweet spot. As our digital business keeps growing at a rapid pace, our stores still have a very long runway of capacity.

I'll reiterate how the productivity of our top stores today demonstrates just how much more our average store can handle? Last year on average, sales per square foot in our top quartile of stores was more than $100 higher than our chain average.

And the math says that for every additional $1 billion fulfilled by our stores, the sales productivity goes up by $4. That's only just over 1% increase in productivity of an average store. So it makes only a marginal difference for our operation and our teams.

It means our stores still have the capacity to manage many, many billions of additional sales with our current footprint. At the same time, with all the growth we've seen and still see ahead of us, we need to invest in our upstream capacity to replenish those stores. So between this year and next, we'll open a handful of new warehouses near key markets, like New York and Southern California to serve the growing needs of our stores.

We've long said that like any business, we'd be making these investments to support our future growth and importantly we built that need for excess capacity into our original capital plan. While we're adding capacity to support replenishment, we'll continue to improve the end to end supply chain operation.

We're using machine learning to predict what product we'll need and where we'll need it. It applies automation to an age-old inventory problem, having the right product in the right place at the right time.

In 2019, we used it to position about 30% of our essentials merchandize. We saw out of stocks and our backroom inventory drop by more than a third, which is a win for the guests and our operation. We'll keep adding new categories to the system and learn how this improves the guest experience.

Strategic positioning is just one of our many efforts to reduce out of stocks, which continue to be a major priority. For the past few years, we've gone deep into the supply chain to make improvements in how we move and position our inventory, and we've made a lot of progress. We'll stay focused on building solutions that improve the guest experience for the long term.

And of course, the robots. For several years we've been talking about the robotic capabilities we're building to support the work of our warehouse team and make our supply chain even faster and more efficient. We spent time testing and learning and this year we're ready to start scaling.

The robotic solution we've been building in a Minneapolis market over the past few years is designed to sort and organize millions of individual units. It fills boxes with the exact amount of product we need in a store, so we keep the shelf full and the backroom clean. Each box is organized by aisle, so it's literally minutes for our team to unload and restock. Here's how it works.

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The solution you just saw was about organizing what goes into every box. We've designed it to sync up with the systems we showed you last year from our Perth Amboy facility, which is about organizing those boxes, sorting them by store and then sequencing them on the truck for easy unloading.

When those two solutions work together, we'll revolutionize how our store teams receive inventory and get the products our guests want on the shelf as quickly as possible. By summer, we'll use the robotics to send presorted units to hundreds of our stores and we'll take the box sorting sequence operation to another facility where the two systems can work together in service of our stores, before we expand it further across our network.

This year, all of our supply chain investments; the systems, robotics and processes that make each individual part of our operation better, will start working together and our stores will really start to feel the impact. Inventory positioning will be even more precise, replenishment will be even faster, our backroom inventory levels will keep declining and out of stocks will continue to improve.

We have spent the last several years building capabilities that would support a strategy to put our stores at the center of how we serve our guests. We said physical was the answer to digital and knew it wouldn't be easy for others to imagine. We'd have to put up the points to prove our case.

This year, we showed quarter-after-quarter how our stores are driving growth, profitable growth for our business. We still have a lot of work in front of us, but the foundation is set. From here, we'll use our capabilities to keep building an experience that sets us apart from the pack and it will be our stores powered by our supply chain and brought to life by our team that sits at the heart of the fastest and easiest Target run yet.

Michael Fiddelke

Good morning, everyone. We’re grateful that you've taken the time to listen to our remarks today and I'm looking forward to having many more in-depth discussions with you in the months ahead. Today, I'm going to share a little bit of my perspective on our business, how we've worked to create a healthy and sustainable model and how we plan to build on that success over time? But you shouldn't expect any big surprises in my remarks today, because our long-term financial algorithm remains the same as we first shared with you a year ago.

Specifically, we've built a business and financial model that's positioned to generate low single-digit growth in comparable sales, mid single-digit growth in operating income, high single-digit growth in earnings per share and continued expansion of Target’s after-tax return on invested capital. But before I get to the model, I want to share a little bit about my experience here at Target and how it's informed my perspective on our business. As Brian mentioned earlier, I began my career in finance and that's always been my passion. However, I’ve also been able to benefit from several experiences outside of finance which helped me to gain a deeper understanding of our business and operations.

Now that I'm back leading the finance team, I plan to leverage those insights in support of the organization as we help our business partners solve problems and evaluate trade-offs, and we face potential trade-offs all the time, focusing on our quarterly numbers or investing in the future, focusing on profit rates or profit dollars, minimizing the cost of a single transaction or maximizing the lifetime value of a guest relationship, investing in promotions or in everyday prices, or managing the cost of labor on the P&L versus making deliberate investments in the team, the company's most important asset.

Analysis of all these questions involves, in some way, the question of whether to focus on the short term or the long term, and if every choice was completely binary we would naturally choose the option in the right-hand column. But that perspective is to narrow. We should always ask if we can replace the word “or” with the word “and”. If we can do that successfully, we will generate superior performance today and over time. Put another way, we should always focus first on the long term but deliver it through strong execution one quarter at a time.

When I think about the long-term trajectory of our business, the one thing that's clear is the need to focus first on strong top line growth. When a retailer is growing, there are so many more levers to pull, more ways to build a model from the top line to the bottom line that makes long-term financial sense. The benefits of growth go well beyond the straightforward reasons like fixed cost leverage.

Growth makes Target a more attractive partner for our vendors, which helps us control costs and attract new partners. Growth makes us a more desirable number of a retail development which opens up more potential sites for our small format stores. And most importantly, growth is confirmation that we’re deepening our relationship with guests keeping Target top of mind when they decide where to shop.

So, for instance, when I think about the potential trade-off between profit rates and top line growth, I'm very mindful of the risk that occurs when companies focus only on expanding rates. Now, obviously, if we can generate healthy growth in traffic and sales while some rate expansion comes along for the ride, that's an ideal outcome.

It's what happened in 2019 and it explains the outstanding year our business just delivered. But, as we plan for the future, we have to be careful not to take our primary focus away from relevance in growth. We've all seen it. Companies who focus too much on rate and then realize only too late that growth is slowing, traffic is stagnating and customer loyalty is beginning to evaporate. The message from that experience is clear. The best path to long-term profit dollar growth is healthy top line growth.

And if our priority is growth first, the only path is to focus on our guests. If we work to learn more and more about them and find ways to deepen our relationship with them, they’ll reward us with more trips and more sales. That creates the right foundation for a sustainable business and financial model. It's what we've created over the last few years and the reason we’re in such a healthy position today.

I think it's worthwhile to pause and take an example from our own history and look back at our journey in digital. 10 years ago, Brian hadn't yet joined our team but John and I know firsthand we were very hesitance to invest in digital. Like today, we were fortunate to have great stores and a great team. And like today, we had millions of loyal guests who loves Target. We thought that was enough, but it wasn't.

Even though our guests still loved us, they began shopping at Target a little less often and elsewhere a little more because we stopped winning on convenience. It happened slowly but we lost a trip here, another trip there and growth became harder and harder to generate. The good news is, we realized the need for change before it was too late.

Beginning five or six years ago, we committed to being a leader in digital and began investing. It took patience and dollars, and we took the time to develop a strategy that makes sense for Target given our assets, our assortment and our brand. And now, as you’ve seen over the last several years, with the right strategy and renewed growth, we've built a business model that's delivering strong top line and bottom-line performance.

Once we committed to investing in digital, new fulfillment possibilities emerged and we proved something that wasn't obvious five years ago. It turns out that digital isn't just about delivering cardboard boxes to your house. It's really about ease, convenience and reliability. Sometimes that can mean a box on your front porch, but more and more guests are telling us that our same-day services are the new model of convenience.

Brian covered the statistics on repeat usage earlier. Our same-day guests are making a choice. After all, they're intimately familiar with how to order a box for delivery and we're still happy to provide that service when it's preferred. But in many cases, our same-day services are faster and more convenient and that's what guests are choosing.

Whenever we roll out new products and services, we typically see two distinct changes in guest behavior. The first is a change in the way they shop as they embrace the new product or service. But importantly, we also see an increase in their overall level of engagement.

So, for instance, when guests find out about our same-day services, we see a meaningful change in the mix of their shopping as they begin choosing same-day services as a replacement for other options. However, as John mentioned earlier, that's only part of the story. We also see incremental growth in spending from guests who begin using our same-day services, which benefits all categories and channels.

Take for instance the change in behavior among guests who use drive up for the first time. Following that first drive-up trip, we see their overall spending go up by nearly 25%. This increase is the result of higher digital spending which grows by nearly 50% as guests begin using drive up and also spend more on order pick up, ship to home and Shipt. However, this increased digital engagement doesn't come with the expense of store sales which also increased by 9%. The causation is clear. This new service drives engagement which in turn leads to higher sales in all channels.

I witnessed the impact of drive up on my own family's behavior. With three kids between the ages of 6 and 13, my wife and I sometimes feel like Uber drivers as we shuttle our kids between different sports and activities. So drive up is the perfect solution. When we realized we need something, like post game snacks or replacement water bottle, we don't need to wait. We place the drive-up order and it's ready in less than an hour. The next time we're passing the store, and I can assure you that happens multiple times in a typical Saturday, we drive up and the order is in our car in less than two minutes.

Because the service is so fast and convenient, it allows us to make an additional last-minute trip that wouldn't be possible in any other way. This is the essence of our digital journey. By designing solutions focused on our guests and investing in capabilities that makes sense for our business, we reestablished Target's credibility in delivering convenience which drove growth across our business. With that growth, our team was able to develop capabilities and a business model that also makes financial sense.

So, as we think ahead and evaluate our long-term financial algorithm, which we first articulated a year ago, it starts with our focus on growing the top line. To do that, we’ll continue to invest in our store experience, digital fulfillment, supply chain, our brands and our team to ensure we stay relevant with our guests.

In a typical economic environment, we believe these investments will enable Target to generate low single-digit growth in our comparable sales with additional growth coming from our new stores.

And here I want to pause and address a question that we hear a lot, which pertains to whether we can isolate the impact of each of the drivers of our growth? And the honest answer is, we can't. All of the initiatives that we are pursuing right now are working together to drive our growth and these investments build momentum over time.

Beauty is a great example where our continued investments are driving an acceleration in performance. As we’ve rolled out new brands, invested in our presentation and staffed the area with specialized team members who have passion and expertise, the category’s performance has gone from strong to even stronger.

Specifically, comp growth in beauty accelerated from 1.7% in 2017 to 7.1% in 2019, out comping the company by approximately 1.5 percentage points over that three-year period. This demonstrates something Brian says all the time. We should never confuse performance with potential. Year-after-year investments in beauty are driving sustainable profitable growth in our business.

When we move down the P&L to consider our long-term operating margin rate, we think it's optimal to plan for only a small amount of leverage over time driven by the D&A line. Otherwise, we are planning for generally small and offsetting changes in our gross margin and SG&A expense rates. This expectation is first informed by our bottom-up analysis of the drivers of both our gross margin and SG&A expense rates and an expectation that we can generally balance the headwinds and tailwinds over time.

On the gross margin line, we expect to continue to benefit from the ongoing efforts of our merchant teams to optimize performance within categories, including assortment, cost, pricing and promotions. These efforts were a meaningful driver of favorability in 2019 and we expect they will continue to contribute to our gross margins in 2020 and beyond.

A second and important factor in our gross margin performance is the mix of our sales. In 2019, with unusually strong growth in our apparel category, sales mix was a meaningful driver of our overall gross margin rate. As we look ahead, we believe it's prudent to plan for our margin mix to be neutral to slightly favorable with periodic opportunities for outperformance, like we saw in 2019.

And finally, growth in digital fulfillment will continue to put cost pressure on our gross margins. The reason for this expectation is simple. Digital fulfillment involves incremental costs compared with the traditional store transaction. While our same-day services are much less costly than traditional digital fulfillment, and we continue to increase efficiency within each of those is fulfillment modes, we expect those benefits will serve as mitigating factors rather than driving in overall rate benefit.

The analysis of the SG&A line is similar, but the drivers are different. And while there are hundreds of separate expense lines that can affect SG&A in a given quarter or year, there are two factors that will be most important over time. The first is the cost of labor, including both pay and benefits. We expect that growth in these expenses will continue to be a headwind in the years ahead for a couple of important reasons.

First, we continue to make strategic investments in team member hours, wages and benefits to position Target as a leading employer of choice allowing us to hire and retain a high-quality team. The second is overall wage inflation in the U.S. driven by labor market conditions which remain very tight when compared to historical averages.

To help offset this cost pressure, we expect to continue to deliver productivity improvements like you’ve been seeing in recent years. These productivity gains will happen in our stores where we continue to benefit from a variety of efforts to eliminate non-guest facing work combined with the benefits of the operating model John highlighted earlier.

A portion of those store savings will be driven by our supply chain efforts as we transform our store replenishment model and rollout automation which will help us control hours, while we take on many of the activities that used to be completed in store backrooms.

But importantly, beyond the specific drivers of efficiency in our stores, we will continue to work to prioritize all of our activities across the company, concentrating our efforts on core initiatives that are most important to our business. This focus on disciplined prioritization will play an important role in controlling costs in the years ahead.

So, when we put it altogether and consider the factors likely to affect gross margin and SG&A rates over time, we expect the pluses and minuses to remain essentially balanced with very little net impact to our operating margin rates.

As a result, based on a small amount of expected leverage on the D&A line, our plan and vision's a similar amount of annual leverage in our operating margin rate as well. This rate performance will allow us to deliver mid single-digit annual increases in operating margin dollars on a low single-digit increase in comparable sales.

But, let me be clear. We will continually monitor our performance to ensure we are optimizing our business for the long term. If, like in 2019, rates can expand while traffic, sales and market share are all growing, we will be happy to deliver another year above expectations.

And if, on the other hand, down the road we see an opportunity to grow long-term profit dollars faster by allowing rates to go lower, we can certainly take a hard look at that opportunity. But that's not what we expect to happen. Based on what we know today, we believe that small increases in our operating margin rates, based on leverage on the D&A line, will continue to be optimal for Target over time.

Moving on to capital deployment. Our priorities remain the same as they have been for more than 20 years. We focus first on investing in our business, then we look to support our dividend and build on our 48-year record of consecutive annual increases. And finally, we look to deploy any excess cash beyond those first two uses to share repurchase within the constraints of our middle-A credit ratings.

Turning first to capital spending. Our long-term expectations have not changed. However, based on our revised outlook for the timing of certain expenditures, we have an updated view of the cadence by year. Specifically, in 2019 our CapEx was lower than expectations at about $3 billion compared with our original plan of $3.5 billion. This performance was driven by unexpected project savings combined with the benefit of timing changes in certain expenditures.

In 2020, we continue to expect CapEx of approximately $3.5 billion as we maintain our recent pace of about 300 remodels for one more year. And in 2021, CapEx is expected to move down somewhat into the $3 billion to $3.5 billion range which is a little higher than our prior expectation.

Beyond 2021, we expect our annual CapEx will settle down to a level of approximately $3 billion or perhaps a little less based on our bottom-up plans for investments in stores, supply chain and technology.

Regarding dividends, for some time we've had a longer-term goal to maintain a dividend payout ratio of around 40%. However, if you've been following us over the last decade, you've seen that ratio peak at more than 50%. The reason for that peak was simple.

During that period, we encountered some temporary headwinds to our financial performance and we chose to continue to build on our record of annual increases. Today, following renewed growth in our profitability over the last couple of years, our dividend payout ratio has moved back down toward 40%. And given that we are now operating near our goal payout ratio, we expect to begin growing the annual per share dividend at a somewhat faster rate in the years ahead.

Regarding share repurchases, you've seen our pace change a lot over the last 5 to 10 years based on variations on our cash flow and level of CapEx. As we look ahead, our plan anticipates additional capacity for share repurchases compared with the last few years, beginning this year. This ability to reduce share count will allow us to deliver high single-digit growth in earnings per share on a mid single-digit increase in operating income.

I want to stress that we'll continue to govern the pace of our share repurchases in support of our goal to maintain our middle-A credit ratings. Those ratings ensure we have the financial flexibility to invest when there are opportunities in our business, even in challenging times.

And finally, before I get to our 2020 guidance, I want to consider the implications of our long-term algorithm for our return on invested capital. I can tell you that ROIC has long been an important metric at Target, because it reflects both our operational performance and the effectiveness of our investment decisions.

Because of this long-term focus on ROIC, our business is already generating very healthy performance at 16% on an after-tax basis. That's a high bar to clear, but if we deliver performance in line with our long-term algorithm we will continue to build on that ROIC performance over time as we grow Target's operating income on a relatively stable base of invested capital.

So now, before I turn it back over to Brian, I want to briefly cover our guidance for the first quarter and full year 2020. But first, I want to address the question of whether we've accounted for any known or anticipated impact related to the coronavirus? And the answer is that as of today we haven't seen a large impact on our business or outlook.

Of course, we are monitoring our import programs down to the purchase order and we've already made some slight adjustments to our plans to ensure we are well positioned throughout the year. But because of our size and the flexibility that comes from our multi-category portfolio, we haven't seen anything so far that would cause our financial expectations for 2020 to deviate from our longer-term algorithm.

Regarding recent sales trends, we experienced solid results across the month of February which supports our expectations for the first quarter. As you will recall when we announced our holiday performance, we came out of the holidays with very low levels of clearance inventory which held back our January comps due to a lower than average level of clearance sales.

However, that same lack of clearance sales played a key role in our fourth quarter profit performance which was strong despite the shortfall in sales. Since then, we have seen the strengthening of sales trends we expected to see broadly across categories and across multiple weeks of the month of February.

So, back to the question of what's reflected in our outlook? The answer is that we've included everything that we know about today. Obviously in every quarter there is some uncertainty about trends going forward and that's only exaggerated by the fluid situation regarding the coronavirus.

So, to reiterate, we've built in everything we know today but we haven't incorporated a placeholder for anything we haven't yet seen. So, with that as context, I'll provide our current guidance starting first with the full year.

We are planning for a low single-digit increase in comparable sales. Total revenue is expected to grow nearly a full percentage point faster, driven primarily by the contribution from non-mature stores.

We expect our gross margin rate will be essentially flat for the year, in line with our longer-term algorithm. We expect a moderate increase in our SG&A expense rate based on our bottom-up forecast across all of the items within SG&A. This increase is being driven by anticipated labor cost increases, reflecting investments in store service and training combined with the continued growth in average wages across the country.

On the D&A line, we expect to see a small amount of favorability for the year consistent with our longer-term algorithm. Altogether, we expect our operating margin rate will be flat to up slightly in 2020 resulting in a mid single-digit increase in operating income dollars.

And for both adjusted EPS and GAAP EPS from continuing operations, we expect performance in the $6.70 to $7.00 range. Performance at the midpoint of this range would result in high single-digit EPS growth on top of mid to high-teens growth in 2019.

For the first quarter, our expectations look very much like our view of the full year. We expect to generate a low single-digit increase in comparable sales. Total revenue should grow more than half a percentage point faster driven by the expected contribution from non-mature stores.

We expect a moderate increase in our first quarter gross margin rate driven by favorability in clearance markdowns compared with last year. We expect this gross margin favorability will be offset by an increase in our first quarter SG&A expense rate. This expected increase will be driven by continued growth in labor costs along with pressure from remodel expenses, driven by the timing of projects compared with the year ago.

On the D&A line, we expect to see a small amount of rate favorability similar to our view of the year. Altogether, we expect a small increase in our operating margin rate for the first quarter resulting in a mid single-digit increase in operating income dollars.

And for both adjusted EPS and GAAP EPS from continuing operations, we expect performance in the $1.55 to $1.75 range. The midpoint of this range would result in high single-digit growth on top of last year's first quarter when our business delivered record high EPS performance.

After working at Target for nearly 16 years, I have developed a strong appreciation for our culture and our people. And one thing our entire team has in common is a lot of pride in working at Target. We’re proud of our brand, proud of what we do and proud of the positive role we plan in our guests lives.

I've seen it throughout my career, during both the good times and the challenging ones. That's why it's been so amazing to have played a part in the turnaround of our business over the last few years, because we care so deeply about this company. We all work hard to ensure that Target stays healthy and continues to thrive well beyond each of our individual careers.

Today, we’re growing again and all of our stakeholders are sharing in the benefit from our guest to our team, from communities to vendors and of course our shareholders. It's our job to build on the success and ensure Target generates sustainable profitable growth both this year and for many years to come, and we’re confident we have the right plan in place to do just that.

So now, I want to thank you for your time today. And I'll turn it back over to Brian for some final remarks. Brian?

Brian Cornell

Thank you, Michael. By now, I hope you have a sound understanding of the strategic choices we’re making, I hope you have a keen sense of our disciplined investment agenda and I hope we've made clear all the ways our durable financial model and industry-leading capabilities position Target to capture more market share, deliver more profitable growth and earn more love and loyalty from the tens of millions of guests who we've asked to expect more from our brand.

But, before we turn to Q&A, I want to underscore what I think is the most important point. Target is different. We've always been different. That's what our guests love about our brand. We’re not like everyone else. We are Target. And it was that simple fact that inspired us three years ago when the fate of the industry was far from certain. We asked our guests what more could we do? What mattered most in their lives? And then we took what they told us and we re-imagined our company with them, putting them first in every decision we made.

That meant leaning into our purpose, pursuing our own path, writing our own playbook, betting on our brands, our team and the millions and millions of guests who shop Target every day. Three years later, it's clear. That was the best bet we could have ever made, because today our guests are choosing Target more than ever before. They’re depending on us to bring a little bit of joy every time they shop.

And look, I know you read the headlines and keep close tabs on our competition. Because our strategy is working, others are taking note and applying some of our pages to their own playbooks. But for us, the whole is greater than the sum of the parts. It’s our stores and our digital channels plus our approach to high-tech service.

Our expertly curated assortment plus our scale plus our balanced multi-category portfolio, it's drive-up plus pick up plus Shipt. It's ease plus convenience plus inspiration. It’s families plus joy that make us who we are that make us Target. We are a category of one, a competitive position we intend to keep for a long, long, long time to come.

And with that, we're going to take a 10-minute break to allow some of you to dial into our conference line for the Q&A portion of this meeting. John Hulbert will provide more details shortly.

But before we transition, I know you have questions about the coronavirus and the potential impact we see to our business and our team. Michael has already addressed how we’re considering this situation in light of our guidance. Like all of you, we’re monitoring this situation hour by hour as conditions evolve.

At Target, we've been prioritizing our team, starting by ensuring that all of our China-based team members have been able to work from home. More broadly, we’ve spent considerable time focused on the best way to support our team members all around the world to make sure they stay healthy and safe.

On the business front, we’ve been continually planning for weeks with our vendors and team members both here in the States and overseas. As you know, we have a highly sophisticated sourcing and supply chain organization. And, like Michael said, we're tracking this by category and by factory, even at the PL level, to ensure we’re on top of it and able to plan accordingly. We feel confident in our plans to manage through this situation. And most importantly, I want to thank our team members around the world for all they’re doing to take care of our guests.

So now, I'll turn it over to John Hulbert who will cover a few logistical details before we take a 10-minute break. John?

John Hulbert

Before we break, I wanted to pause and make sure everyone understands what’s going to happen. And the good news is that most of you can simply stay on this webcast and you'll hear the Q&A session beginning in about 10 minutes. However, if you received a conference call invitation and you want to ask a question during Q&A, you will need to leave this webcast and dial into the number for the conference line which was sent with your invitation. But again, even if you receive the invite but don't intend to submit a question, you want to stay on this webcast to listen in.

With that, we can begin a 10-minute break. Thanks.

Question-and-Answer Session

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation 2020 Financial Community Meeting Q&A Session conference call. [Operator Instructions]. As a reminder, this conference is being recorded Tuesday, March 3, 2020. We are ready for our first question from Christopher Horvers with JPMorgan. You may go ahead.

Christopher Horvers

Thanks. Good morning and thanks for hosting this. So I have two questions. First, a bit of retrospective on the fourth quarter. How much do you think there were some industry factors that went on there, like you know in electronics and toys versus the six fewer days and versus what may be left on the table in non-gaming and electronics and home? And then related to that, as you get into the fourth quarter next year, I know it’s far out, but you do have two extra days. You have a new PlayStation and Xbox launching. So are you more optimistic on the potential top line outlook for the fourth quarter next year? And then of course related to that, there's probably a gross margin headwind there given the mix probably turns upside down relative to what you saw this year.

John Mulligan

Chris, good morning. Thanks for joining us and I want to thank everyone for being so flexible today. We look forward to seeing you in person throughout the year and certainly we look forward to gathering again in person next year. Chris, as I think about Q4 and we've talked about some of the implications, obviously, we felt really good about our performance in many categories. Very strong growth in apparel, strength in beauty, in household essentials and also in food and beverage, which was offset by softness in toys where we ran a flat comp but actually grew share in a category that was facing some pressure overall, and we were disappointed with our performance in electronics. That being the case, we’re feeling very confident that we’re already putting plans in place for the fourth quarter of this year. We’ll learn from last year. We’ll make sure that we enhance our inventory position on key items. As we've said many times, we exited the fourth quarter of this year and when into January with very little clearance inventory. We’re going to make sure that we rebalance inventories as we going into next year. We’re excited about some of the newness in electronics, some changes we’ll make in our home cadence. But overall, we’re already working on our plans for the fourth quarter of 2020 and feel very confident that we’ll certainly learn from this year and build some exciting plans for our guests as we think about the holiday season of 2020.

Christopher Horvers

Got it. And then for a long-term perspective, the third party assortment that you have online, you called that 250,000 SKUs. Is that inclusive of your SKUs online or is that incremental? How large do you see this potentially going? And then on the fulfillment front, is this a drop-ship arrangement from the vendor or are you stocking these items now? And just really big picture, how do you think about that opportunity over the long term?

Brian Cornell

Chris, we're going to continue to carefully curate our Target Plus assortment. I'll continue to emphasize the fact that it's an invitation-only. We're carefully working with vendors that we think meet our criteria. We will expand that selectively over time. And that is an arrangement where those vendors ship directly to our guests. So we're very pleased with the early reaction. We'll carefully build curation and assortment over time, but the reaction has been very positive.

Christopher Horvers

Thanks very much. Best of luck.

Brian Cornell

Thank you.

Operator

Thank you. Our next question comes from Mike Baker with Nomura. You may go ahead.

Michael Baker

Hi. Thanks. In terms of the comps throughout the year, should we expect any variation by quarter? It sounds like February is off to a good start. You have a tougher comparison in the first quarter on a one-year basis, but it's not as tough when you look at it on a two-year basis. Just anything we should think about in terms of the pace throughout the year?

Brian Cornell

As Michael discussed during the prepared comments, we expect a very consistent level of performance throughout the year; low single-digit comps, mid single-digit operating income expansion, high single-digit EPS. There will be some fluctuation month-to-month but you should expect a very consistent performance over the balance of the year. We felt very good about the start of our business in February and we expect to deliver very consistent results throughout 2020.

Michael Baker

Fair enough. And one follow up, if I could. And if you said this or if I missed this, I apologize, but I don't think I did. How do you expect your digital sales to grow in 2020? As you said, it's six straight years of 20% or even 25% or higher, but what should we think about for 2020?

Brian Cornell

Yes, I think we should see a very consistent pattern with digital as we continue to invest in our same-day fulfillment options and the guests continues to gravitate in that space. So we've had a very consistent track record over the last six years. I think you're going to continue to see that perform quite well as we go into 2020 and beyond.

Michael Baker

Thank you. I appreciate the time.

Brian Cornell

Thank you.

Operator

Thank you. Our next question comes from Oliver Chen with Cowen and Company. You may go ahead.

Oliver Chen

Hi, Brian. Drive up's done a really positive and amazing process and momentum there. What are your thoughts on how that will evolve in terms of automation in-store and what will happen as this continues to ramp up and engage the customer there? I would also love your thoughts on managing promotions and your thoughts on what you can do with promotions as well as in-store automation and what would happen over time as you look to AI and robotics as well?

Brian Cornell

Sure. Oliver, thanks for joining us. I'm going to let John talk about some of the changes and enhancements we'll make to drive up and I'll let Michael talk about some of the changes that we have on the promotional front.

John Mulligan

Sure. Hi, Oliver. On drive up, I think the big changes you're going to see this year we talked about, we want to add fresh or temperature-controlled products that is the number request from our guests to add a little bit of selective portion of our assortment there so they can round out their drive-up trip. You'll also see us add adult beverage. That is also a request directly from our guests as we continue to get feedback on that. I would say directly on the automation, we may be going in a little bit different direction than some others. I think we think the store experience is based on interactions with our team member and we think the differentiation much like we see with Shipt is the opportunity to provide that human connection between our team and the guests. From our perspective, the value of the automation today is upstream. And so we look to take work out of the store, consolidate it upstream and then working with our distribution teams automate some of that to make it more efficient. And the goal there is to free our team's up in-store to interact with our guests and again provide that human connection, and that includes as it relates to drive up. And so that's the direction we've gone, as you know, for many years and we'll continue to work against that.

Michael Fiddelke

Thanks, Oliver. On the promotion front, I think you'll see us continue to make sure we've got that right balance of great promotion and strong everyday price. And there's certain times of the year when we lean in more into promotion appropriately, but I think you'll see us consistent in trying to balance both of those promotion and everyday price in the right way. I also might add, that's why I get excited about a program like Circle. That gives us a great foundation to even personalize to a greater degree of fidelity the right promotion to the right guest. And so the launch of Circle in October gives us another arrow in our quiver when it comes to getting the right promotions in front of guests.

Oliver Chen

Okay. Last question is on next day. It's a question we're receiving. What are your thoughts on how that will continue to be important and how you'll competitively position your fulfillment with – be it in mind?

Brian Cornell

Oliver, we've been really clear. As we talk to our guests and as we think about our strategy going forward, we'll continue to focus on same day and we really think that's the point of difference for Target. Whether it's order online, pick up in store, drive up or having a Shipt shopper come to your home within hours, we really think that's the most important area for us to focus on and you'll continue to see us lean into our same-day fulfillment options in 2020 and beyond.

Oliver Chen

Thank you. Congrats. Best regards.

Brian Cornell

Oliver, thank you.

Operator

Thank you. The next question comes from Kate McShane with Goldman Sachs. You may go ahead.

Kate McShane

Hi. Good morning. Thanks so much for taking my questions. John Mulligan, in your comments, you had said that this is the first year I guess 2020 where the supply chain investments were all going to come together. And I just wondered in the gross margin guidance that you gave was very helpful. How should we expect that supply chain investment to drive potentially better gross margin results longer term?

John Mulligan

Hi, Kate. Good to talk to you this morning. First, I'd say there is a sequencing thing here, right. We continue to see IPC scale, our inventory planning control, where we put the inventory. As we said, we'll scale automation; the – each year's automation to about a quarter of the stores this year. And then late this year we'll start to bring the Perth Amboy automation together with that to get the totality of what we've been building over several years together. Our focus, like I said, has been to consolidate that work, pull it out of the stores and then use automation to improve how we do it upstream. So I think the biggest impact you'll see from a gross margin perspective relates more to continuing to reduce out of stocks, to get our – one, improve the guest experience; but two, capture those sales and improve gross margin dollars. So I think that's by far the largest improvement. The other place where we continue to have opportunity is exactly what Brian just said. As we continue to grow same-day fulfillment, that has a positive impact or it lessens the negative impact, if you will, of continuing to grow our digital business.

Brian Cornell

Kate, I'd just reinforce a couple of points that John's made. As we think about the benefits upstream automation, we'll continue to focus on improving our in-stock positions, the quality of our in-store presentation, continue to invest in that high touch service and continue to support our same-day fulfillment options. So you'll continue to hear us repeat that again and again as we think about 2020 and beyond. But we think we've got opportunities to improve our in-stock position, improve the quality of our presentation each and every day, continuing to make sure that we use our team members and that human touch as a point of differentiation, and continue to invest in our same-day fulfillment options.

Kate McShane

Thank you. And if I could ask one follow-up question, you had mentioned that you were getting some national brand wins in some of your categories. Is that something that we can expect across the whole store in 2020 or is it a longer term?

Brian Cornell

Kate, obviously as we continue to invest in growth both in-store and online, we're seeing a number of new vendors knocking on our door. Certainly we've seen that in categories like apparel with Levi's and what we've done in the space with Disney, but we're also seeing new brands knocking on our door in categories like beauty. We were really excited this week to announce the new partnership with Boar's Head in food and beverage. So I would expect that's going to continue to happen over time and we'll carefully select those new partners that fit our brand standards and are right for our guests.

Kate McShane

Thank you.

Operator

Thank you. Our next question is from Michael Lasser with UBS. You may go ahead.

Michael Lasser

Good morning. Thanks a lot for taking my questions. The first question is on the coronavirus. Are you seeing any indications today from your vendor partners that you're going to have supply disruptions in the coming months and are you altering any decisions or doing any continued contingency planning for an extended consumer disruption? For example, might you be even delaying share repurchases because it could impact your stock price in the coming weeks and months?

Brian Cornell

Michael, like others, we've been carefully monitoring the situation and the impact on our business, our team and our guests. We've been working closely with our overseas vendor partners. Both our own brand partners and our national brand partners understand the state of play. We've set up a team over the last month that's literally meeting daily to monitor POs, to understand the state of production in China, to understand the rate of workers returning to work, understanding the state of the ports. So we've been looking at this from all possible dimensions. And certainly from a merchandizing standpoint, we know that we're going to see some periodic delays. We're out in front of that making changes in our assortment and our promotional and presentation plans, but all that's reflected right now in our view of guidance for certainly the first quarter and the balance of the year. We've also been working very closely with some of our domestic vendors, our DSD partners, as we see some growing demand in categories like household essentials and food and beverage to make sure we are supporting that with the right level of inventory. So it's an ongoing process and it's very dynamic, but I feel really good about the work our teams have done, the focus that our sourcing groups, our supply chain, our merchants have brought to this discussion, and our focus is going to be to continue to meet the needs of our guests during these challenging times that we're all facing.

Michael Lasser

That's very helpful. My follow-up question is on the gross margins. Can you give us a little bit more detail on how the gross margin by line item performed in the fourth quarter and mostly from the merchandizing strategies and digital fulfillment piece? And then as part of that, on the digital fulfillment piece that had become less dilutive to the gross margin. Seems like based on the commentary, the headwind from that is going to pick up. Have you just reached an inflection point where you're doing as much as – a lot of digital fulfillment through your stores and as you do more, you don't see much of a marginal benefit from that as you move forward?

Michael Fiddelke

So I'll start with some of the Q4 margin piece of that, Michael. The two things I would call out in Q4 that really helped us on the margin side, we were really proud of the profit performance we were able to deliver in Q4. And it came in part from some of the categories where we really saw strength. Apparel grew strong and gained share and that's always beneficial to the gross margin side, both the gross margin naturally in that business and then we ended the season really clean and that saves us clearance markdowns on the back end. The second callout is actually the second part of your question. The same-day service growth is healthy for our profit compared to shipping a box long distances. Those same-day services are way closer to the economics of an in-store sale and that's helpful on the bottom line too.

Michael Lasser

Okay. Thank you very much and good luck.

Brian Cornell

Michael, thank you.

Operator

Thank you. The next question is from Joe Feldman with Telsey Advisory Group. You may go ahead.

Joseph Feldman

Hi, guys. Thanks for taking the question. I wanted to ask, can you share a little more color on, like you talked about the electronics category redesigning it. Like what are you guys envisioning there for that department? And if you maybe tested it anywhere and if there's a significant cost to do that?

Brian Cornell

Joe, we're still in the early stages of testing some new redesigns. You should expect that to appear in about 200 locations this year. Start to envision TVs at a much lower level as you would actually see them in your home and emphasis on more interaction with our team members to provide insights into how to bring these products home and install them in your home, certainly elevating some of the focus on the key brands in that space. And we know that brands are really important in that space. So the focus we'll place behind brands like Apple and Samsung. So really trying to make sure as a more inviting environment where we can have better interaction with our guests where our teams can provide the professional services that our guests are looking for in that space. So we'll continue to test and learn and iterate as we've always done with changes in-store, but we really want to make sure that we bring the guests a much more inspiring environment within electronics where our team members can provide the expertise that they need each and every day.

Michael Fiddelke

The only thing I'd add, Joe, on the cost side, if you think about doing this in the context of a store remodel where we tear up a fair bit of the store through the course of that remodel, the marginal capital here is relatively modest and certainly far better than doing it on its own and going into the store and just doing this as part of the store. So as Brian said, we'll bring it into the remodel program. The early testing certainly shows that there is a payback to doing so, and so we feel good about that. And as Brian said, we'll get a few more stores and a couple of hundred stores and really have a good idea of what it brings.

Joseph Feldman

Thanks. If I could follow up with the own brands or private brands, you guys obviously have done a great job, brought in some or developed so many new ones. How should we think about it going forward? Like will you continue to bring newness and replace some of the brands that you've even launched maybe two, three years ago or will there be all additive or how are you envisioning that for the next couple of years?

Brian Cornell

Joe, I think you're going to see us spend a lot more time on brand management, and I'll use Cat & Jack as an example. Cat & Jack has been part of our collection for four years now. It's now a multibillion dollar brand. But our teams will need to continue to bring newness, make sure that that brand is on trend, make sure that we continue to bring our refresh assortment to our guests each and every quarter and understand when we need to make changes and pivot some of these brands to make sure that we constantly stay on trend. So over the course of time, some of the brands we have introduced, they might go away and be replaced by some new brands, but I think more and more we're going to be making sure we're managing the lifecycle of those brands, bringing newness, bringing great insights, refreshing the collection, making sure the aesthetic is on trend for what our guest is looking for and continue to strengthen and invest in the brands that we have in place today. So Cat & Jack is just one of many of examples where we know we've got additional opportunities to build even stronger relationship with our guests and make sure those brands are even more relevant in years to come.

Joseph Feldman

Great. Thank you. Good luck with the year.

Brian Cornell

Thank you.

Operator

Thank you. Our next question comes from Peter Benedict with Baird. You may go ahead.

Peter Benedict

Hi, guys. Thanks for taking the question. First one, just on the mix of digital fulfillment, I think for last year it was 24% or so was the same-day stuff. Can you give us a flavor for how – or sense for how the remaining 76% breaks down between a traditional kind of fulfillment center going to someone's home and then how much of that is kind of the stores delivering to the home but not obviously on a same-day basis? That's my first question.

Michael Fiddelke

Sure. Like we said, Peter, the aggregate for Q4 and where we're running right now is about 80% of the fulfillment we do is done by the stores. If you take away the same-day portion, all of the rest of that is shipped from store. The remainder of that is our FCs, which is probably depending on the day in the 12% to 15% range and then direct vendor ship is very, very small. We prefer that because the service there isn't typically at our standards. But I think overall you'll continue to see us operate in that 80% range. And as the same-day fulfillment grows, the ship from store will come down a little bit or not grow as fast really. It will continue to grow, just not grow as fast. But the stores overall continue in that – we think that 80% range is right where we want to be.

Peter Benedict

That's great. Thank you. And then just on the inventory position, how you're feeling about it heading into the spring here? And obviously it sounds like February is off to a good start here, but curious about kind of the early indications around seasonal demand, whether it be in the southern markets or whatnot? How is that setting in and where you are from an inventory perspective? And then as we think just down the road to back to school, were you thinking any of the sourcing for back to school product, I'm not sure how much of that would be even coming out of China, but just how are you thinking about some of your back to school plans here in terms of getting the product here? Thanks so much.

Brian Cornell

Yes. Peter, we'll start with the first big season of the year and that was Valentine's Day in February where we saw very strong performance and a great reaction from the guests. We expect that to continue as we go into Easter. And obviously we're very focused on back to school, back to college which is a very important season and life moment for Target. And I think we feel very good about our sourcing plans and our position as we get ready for that holiday season. So off to a good start. We've seen a very good reaction to our assortment and our plans for Valentine's Day. We're now focused on the Easter holiday. And I think our teams have put together really strong plans for back to school and back to college this year and we feel good about how we're positioned going into those seasons.

Peter Benedict

Okay, great. Thanks so much.

Brian Cornell

Thank you.

Operator

Thank you. Our next question is from Karen Short with Barclays. You may go ahead.

Karen Short

Hi. Thanks. A couple of questions for you. First of all, just on the quarter-to-date sales, I guess – I'm wondering – I think your comments on coronavirus were much more limited to the supply chain as opposed to top line, but any color you could give in terms of whether there has been some positive benefit from stockpiling I guess in the quarter-to-date trends?

Brian Cornell

Yes, I'll start and I'll let John and Michael jump in. But over the last few days as obviously everyone's been reporting, we've certainly seen a U.S. consumer that's starting to stock up on household essentials, disinfectants, food and beverage items, all those staple items that the CDC has recommended they add to their pantry. And certainly we've seen aggressive shopping across the country in our stores. So we're obviously working closely with our domestic vendors, with our DSD partners to make sure that we're elevating inventory in preparation for what we think is going to be a continued demand for stock up items. So certainly we're seeing that across our network. We expect that to continue over the next few weeks and we'll watch it carefully over time.

Karen Short

Okay. And then just on inventory and I guess working capital in general, obviously we – it was advertised that you would have inventories down in 3Q given the year-over-year comparison, but I guess I'm wondering if you have any thoughts or color on whether you overly managed inventory in terms of losing out on some sales in the season? And then thoughts on working capital and inventory specifically into next year as it relates to out-of-stock?

Brian Cornell

Why don't I start and then I'll let Michael continue. And I think as we look at the fourth quarter, we clearly recognize that we exited the fourth quarter at a level of inventory that was actually too clean and certainly lost some sales as a byproduct of that. There were many key items where we didn't buy deep enough. We ran out before the holiday season. We have very little clearance inventory in January. And while that was a benefit to our gross margin during the period, we certainly lost some sales because of that and our teams are actively engaged in making sure that we learn from that as we plan for the holiday of 2020.

Michael Fiddelke

Yes, I would just add that's the age-old balancing act of retail. And so two years ago, we were much heavier than we wanted to be during and coming out of the season. This year, a little light. Next year, I feel good that we've got the plans to split the middle.

Karen Short

Okay. And just one final question on dividend growth. How should we think about that then in terms of the growth rate going forward?

Michael Fiddelke

Yes, sure. As I said in my remarks, we've kind of been tracking toward a dividend payout ratio of 40%. As we get to that mark, you could expect us to increase dividends at a more aggressive pace going forward. Something in the mid single-digit range for this year in total is probably about right. In the long run, holding that ratio would imply dividends per share growing at a similar rate as earnings per share.

Karen Short

Great. Thank you.

Operator

Thank you. Our next question is from Robbie Ohmes with BofA Global Research. You may go ahead.

Robert Ohmes

Thanks for taking my question. Actually a follow up on drive up maybe for Professor John Mulligan. I was wondering if we could get maybe a little more detail on the move into fresh, frozen and alcohol and the early responses that you've seen in the Twin Cities test and maybe kind of walk us through what the barriers are to rolling that out quickly or sooner rather than later and what the profit impacts are on drive up when you start including things like fresh and frozen? Thanks.

John Mulligan

Sure. Hi, Robbie. Professor is probably a strong word to describe me. I think we've been testing this in the Twin Cities with key members for a few months now, several months. I think, like I said, the guests feedback broadly is that they want to add a few more items to their drive-up basket, something like milk, eggs, whatever, bread, whatever the kind of staples are that they need or bananas. And so we feel good that that will be – this is ultimately be adding a few more items to what is already a drive-up order. And from that perspective we think ultimately will get to a good place on the economics. Clearly, we have work to do to scale the business, to work through the operations for the stores. We want to ensure that we have the chill chain wired and all of that, and I think that's where you'll see us make sure we can do it at scale. We've done the operating test with our team members, so we understand how it should work. But then we want to get to a place where as that demand grows as we introduce it, which we've seen with every one of the things we've introduced from a fulfillment capability perspective, the demand grows relatively rapidly and we want to be sure we're built for it. The final piece that perhaps changes the cadence a little bit is we do need to go back in and ensure we have capacity in the store to handle the temperature controlled. The one thing we will not trade on is the speed and efficiency with which drive up occurs today. A two to three minute promise is incredibly important. We think it's a – we know it's a differentiator in the marketplace. And so ensuring that we have frozen and refrigerated capacity close to the front of the store so that our team members can continue to deliver on that pace requires some build out. And so you'll see us work through that as well. Put all that together, us wanting to learn, some build-out time and that's why we get to the scaling that we're talking about for this year.

Robert Ohmes

Thanks. And then my follow-up question would just be on Target Plus and as you're – as Target is bringing in more brands, national brands, what is the economics on that? Are you pursuing brands that you just think will drive traffic to your Web site, or are you getting alternative profit stream benefits from bringing on those brands?

John Mulligan

Yes, kind of to Brian's comments earlier, we're really focused on curating the right sellers to complement what we already sell in-store and online and we feel like that's an additive benefit to the guest experience and assortment choice in total.

Robert Ohmes

Great. Thank you.

Operator

Thank you. Our next question is from Edward Kelly with Wells Fargo. You may go ahead.

Edward Kelly

Hi, guys. Good morning. I wanted to ask you about CapEx. So the 2021 and beyond CapEx guidance came up, what's driving that and can you just provide more color around where you're going to be spending capital that wasn't anticipated prior?

Michael Fiddelke

Sure. I can take that. Our overall expectations for the level of continued investment in the business are actually about the same. I think what you're seeing are some puts and takes by year as we've refined our expectation on the specific timing of certain projects. For example, the timing of when we bring a distribution center online can move around a year versus what we thought before and we're continually revising those out year plans. Maybe about 0.5 billion light of where we thought we'd be in 2019. 2020 is unchanged at 3.5 billion. 2021's a little higher based on the re-timing of some of those projects, but 3 billion to 3.5 billion. And the out years are still at 3 billion or just a shade less.

Edward Kelly

Okay. And then just a quick follow up on what you're seeing currently on coronavirus and demand. As it relates to digital fulfillment, any increased demand that you're seeing there, thoughts on how that might impact digital growth next year – during 2020, sorry? And are you making any adjustments on fulfillment capacity at all related to this?

Brian Cornell

Yes. Ed, actually as we sit here today I think we're reminded just how important stores are to our guests during a time like this. And we've certainly seen a surge in store traffic as guests begin to stock up on those household essentials and those core food and beverage items. So it's been a reminder to all of us that stores are critically important to our guests. It's where the majority of U.S. shopping still takes place. And while our same-day fulfillment options are growing in popularity, our guests still respond to our stores first and foremost. So that's really what we've seen recently and I think you're seeing that across the retail sector, but it is a reminder that our multi-category portfolio is very important during times like this and our stores play a really important role to meet the needs of today's guests during uncertain times.

Edward Kelly

Great. Thank you.

Operator

Thank you. Our next question is from Paul Lejuez with Citi. You may go ahead.

Paul Lejuez

Hi, guys. Thanks. I'm curious as we look back at 2019, what were your biggest surprises? Maybe if you can throw out one positive and one negative thing that really surprised you in 2019? And I'm also curious what you view as the lowest-hanging fruit for 2020 as well as how you're thinking about your biggest challenge in 2020? Thanks.

Brian Cornell

I'll start, but I think this is a great question to open up for both John and Michael. If I think about positive surprises for 2019, I think the overall consistent performance that we delivered from a top line standpoint, the exceptional growth we delivered, the market share gains we saw across so many categories and we illustrated that during our presentation today, but seeing the type of share gains that we delivered in apparel, in beauty, the continued strength in toys, the strength we saw in household essentials and food and beverage, our multi-category portfolio performed so well throughout the year. Obviously we were very pleased with our ability to translate that into operating income growth and obviously into expanded EPS improvement. So for me, the health of the entire portfolio, the fact that our entire multi-category portfolio performed so well and we were able to take oversize share in so many categories translate that back to operating income and EPS growth for our shareholders, I think the quality of the results in 2019 is something we feel very good about. If I think about an opportunity, we've talked about it many times, we were disappointed with our performance in the fourth quarter in several spaces and we think we've got opportunities to go back into 2020 and improve performance in toys, in electronics and parts of our home business. As we focus on key items next year, we want to make sure we're buying to the depth required to make sure that we meet the demand in the marketplace during the holiday season. So those are important lessons learned. But the combination of our straight in our portfolio, the growth we saw in same-day fulfillment options, think about the fact that order online, pick up in store has been something we've been offering for five to six years now. The fact that during the fourth quarter we saw growth rates of close to 50%, the expansion in the way the guest has reacted to the drive-up component, we feel really good about those highlights and obviously we're always a company that's self critical. There's things we know we can do better and we will as we plan for 2020. John, what's on your list?

John Mulligan

Well, you had a good list there. I think from my perspective the two things I'd say from an operations perspective, one, Brian hit right on it, the way same-day – really the guests' acceptance there and the guests' preference there for same day, we certainly planned for that to grow meaningfully this year. That exceeded our expectations. And so I think that is something we will continue, as we said, build out next year, improve drive up, add different categories to drive up I think is a huge opportunity for us. And then continuing to grow Shipt both inside Target and outside Target we think is an opportunity. The other highlight I would say that we haven't talked a lot about today, but the work of the stores' teams and delivering the great store experience they did while we changed entirely their operating model, and I said earlier 300,000 team members basically all getting new job descriptions across the company and the way they handled that change, the great job the leaders did to lead through that, and as I said while continuing to provide a great in-store experience; one, it's a highlight for me for 2019 but it is a huge opportunity for 2020 and beyond because we're just getting started there, right? Everyone's learned their jobs and now we have the opportunity to really improve that operating model, improve how we work with our guests and serve their needs in the store and I think that's a great, great opportunity for us in 2020. Michael?

Michael Fiddelke

You guys have covered a lot of ground. I'll try to add to it. In 2019, if you step back and look at that year compared to our long-term algorithm, low single-digit comp growth, mid single-digit operating income, high single-digit EPS growth, it was a year that exceeded that algorithm meaningfully. And our ability to translate top line strength into bottom-line profit is a real standout for me. And then the capper is to see ROIC at 16%. Back to the investment question and CapEx question earlier, we've got a balance sheet that we have built intentionally to afford ourselves the capacity to invest in growth and to see those investments payoff with strong ROIC performance is always good from the chair I sit in. In terms of opportunities, a little bit more inventory at the end of the year would have been nice. We've touched on that already. And as I think about 2020, I'd go back to the multi-category model both through the limbs of strengths and opportunities. I think we've really shown over time that model affords us the ability to lean in and be aggressive and take share across a number of categories when the opportunity presents itself. And when I think about risks, it's the stuff that we can't see coming as we sit here today that's probably going to be what we're going to talking about as the year progresses. But the benefit of a multi-category model is it buys us a lot of diversification of that risks and our ability to flex within that model to overcome whatever is thrown at us is really strong.

Brian Cornell

So, Paul, I'll come back to kind of two other highlights as we think about the year and I think about even the fourth quarter. While we were disappointed with our comp sales in the fourth quarter only growing by 1.5%, we were able to take market share across many categories. But importantly, because of the work that we've done in-store, the disciplined approach we've taken in our supply chain, our ability to manage category mix and the fact that on a comp growth of 1.5%, we grew operating income by 7.3%, EPS up over 10% is something that I think our team is very proud of. And I would end by going back to the team. And for several years now, I think our team has demonstrated that we have built a sustainable, durable financial model that – one that's going to perform continuously over time. And I feel terrific about the talent we have at Target, the diversity of our team, the leadership that we have in place right now. And obviously at the end of the day it always comes down to people. And this is a fabulous team that I think is prepared to face any of the challenges in front of us, but puts the guests first is thinking about what's right for our business, right for our shareholders and I think that's one of the things that we all feel really good about as we go into 2020.

Paul Lejuez

Thank you, guys. Good luck.

Brian Cornell

Operator, it looks like we've got time for one last question today.

Operator

Thank you. Our last question comes from Greg Melich with Evercore ISI. You may go ahead.

Greg Melich

Great. So I got the pressure here now.

Brian Cornell

No pressure at all, Greg.

Greg Melich

A lot in here, so two things I really want to follow up on. One was you mentioned inventory a lot and I guess I want to ask a little bit – it sounds like you really wish you had more. And I'm wondering what things can you do to change the incentive structure for the organization or at least shift to have that extra 500 million of inventory? Because it just seems to make sense given your traffic growth and the interest rate environment that we're in?

Brian Cornell

Greg, I'll start. And as I think about where we ended up and the choices we made, it's not about changing our incentive structure. Our incentive structure is really well connected to the overall financial objectives of this company. Next year and actually throughout the year, you're going to see us focus on fewer items in a much bolder way to make sure we're delivering a great experience for our guests, but you'll see us curate even tighter as we go into 2020, make sure that we stand behind those key items that we know are on trend that are going to drive demand, that are going to delight our guests and bring them job when they're shopping our stores or shopping online. So it's not about changing an incentive structure. It's about saying, all right, here's items we're going to stand for, we're going to make sure we're bold and deep as we make those buys and we're going to make sure that they're the right items that deliver upon our brand promise and make sure that we're delivering both a great experience and great quality and style and terrific value throughout the year.

John Mulligan

The only thing I'd add, Greg, I don't think this was our merchant teams, our planning teams, IM team – inventory management teams lacking conviction. I think we finished the year before a little bit heavy. The team's looked at a calendar with six less days of sales in front of them and perhaps took a – well, we did take a conservative approach and we perhaps went a little bit further. And I think like Brian said, we recognized where we have some opportunity and already adjustments are in place, so we feel about that resolving itself.

Greg Melich

And then secondly, of course we see the leveraging was you said, John, down 25% on total cost [indiscernible]. I'm curious what the growth of fresh and adult beverages would do this year? Should we expect a similar improvement? Will that create some headwinds? Because ultimately, if digital is profitable, it sounds like it is now but not as much as before [indiscernible] along those lines if you could help us would be great?

Brian Cornell

Yes, I think Michael described it well in his remarks. Digital is always going to be dilutive to rate. But from our perspective, digital is really important because as we talked about particularly with those same-day sales, we see a lot of incrementality. We see 25% incrementality when someone brings drive up into how they engage with Target. We see 100% of their Shipt sales being incremental. So these are individuals becoming more engaged with Target. And with respect to drive up, as we give them the opportunity to buy a larger assortment, again what we hear from our guests consistently is, I want to do what I want to do, but hey by the way I can throw one or two more things into that basket. And so from that perspective, we feel good about getting to a good economic place with those transactions. And so there's much for us to learn here as we – we aren't even really doing this for guests yet in Minneapolis or we may have just started in the past week or week and a half, so there's a lot for us to learn there. But we feel really good and we feel really good especially given that consumers clearly are moving very quickly to same day and those economics are very beneficial to us. So we feel good about the direction and more for us to come back and talk to you guys about as we learn more about drive up.