Good morning, and welcome to our 2013 fourth quarter earnings conference call. On the line with me today are Kathy Tesija, Executive Vice President of Merchandising; and John Mulligan, Executive Vice President and Chief Financial Officer.

This morning, I will provide a high level summary of our fourth quarter results and strategic priorities for the year ahead, and Kathy will discuss category results, guest insights, and the holiday season. And finally, John will provide more detail on our financial performance, along with our financial outlook for 2014. Following John's remarks, we'll open the phone lines for a question-and-answer session.

As a reminder, we are joined on this conference call by investors and others who are listening to our comments via webcast. Following this conference call, John Hulbert and John Mulligan will be available throughout the day to answer any follow-up questions you may have. Also as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in the 8-K we filed this morning.

Finally, in these remarks, we refer to adjusted earnings per share, which is a non-GAAP financial measure. A reconciliation to our GAAP results is included in this morning's press release posted on our Investor Relations website.

Target's fourth quarter financial results reflect better than expected U.S segments performance in the first three weeks of the holiday season, followed by meaningfully softer results, following our December 19th announcement that criminals had gained access to guest payment card data in our U.S stores.

In total, fourth quarter comparable sales decreased 2.5% consistent with our updated guidance in January. Throughout the quarter our team managed the business extremely well, adjusting both inventory and expenses to match the rapidly changing pace of sales. As a result, our US operations generated fourth quarter adjusted earnings per share of $1.30 at the high-end of the updated guidance we provided in January.

In Canada, we worked diligently to leverage holiday traffic in an effort to clear excess inventory. Markdowns resulting from this effort drove a very low gross margin rate, but allowed us to reduce average inventory per store in Canada by approximately 30% between the beginning and end of the fourth quarter.

Canadian segment EPS dilution was $0.40 in the quarter, $0.05 better than the updated guidance we provided in January. We are pleased that our early cycle Canadian stores have seen the most improvement giving us confidence that we will continue to see continued improvement across all our Canadian stores in 2014.

Fourth quarter GAAP EPS of $0.81 reflects U.S and Canadian segment performance along with costs related to our recent restructuring in data breach along with small accounting and tax matters. As we work to address the impact of the mid-December data breach, we have put the welfare of our guests at the center of every decision we’ve made.

We have communicated in early and often providing the best information we had about new facts in ongoing -- on the ongoing investigation. We consistently assured our guests that they would have zero liability for any unauthorized charges on their card accounts resulting from the breach.

We increased fraud detection for REDcard holders and extended free credit monitoring and identity theft protection for any guests who has ever shopped one of our U.S stores. We are truly sorry for the impact this breach has had on our guests, team members and other stakeholders and I want to reiterate that we are committed for making things right.

We know these initial steps are part of a longer process. We continue to listen to our guests and we know that this incident and recent security breaches at other companies have shaken their confidence in both Target and the U.S payment system more broadly.

To rebuild guest confidence, we’re committed to an end-to-end review in cooperation with third-party experts to understand how the breach occurred, the identification and acceleration of solutions to provide enhanced protection in the future and engagement with third-party experts to protect the industry and consumers from future threats.

Accordingly, we're taking the following steps. We are conducting an end-to-end forensic investigation of our processes, systems and personnel to make informed decisions on potential security enhancements. We are accelerating the adoption of advanced chip enabled technology, investing more than $100 million to equip our stores and to issue Target branded smart chip credit and debit cards.

We have long supported this more secured technology; a broad adoption in the U.S market has been elusive. We believe that recent events will help the industry to reach a tipping point to an accelerated option in the U.S and we are investing to ensure that Target is a clear leader in driving this change.

We are working collaboratively with a broad set of stakeholders in the payment card space including banks, retailers, trade associations, payment processors and networks to share in advance best practices and foster future innovation.

We helped launch and will be an active leader in retail industry, cyber security and data privacy initiative. In addition, we are investing $5 million in a new coalition with the Better Business Bureau and National Cyber Security Alliance and the National Cyber Forensics and Training Alliance to advance public education around cyber security and the dangers of consumer scams.

While we can't yet assess the full impact of this crime against Target and our guests, we're pleased that sales have started to recover from the trends we observed following breach related announcements in December and January. Importantly, because we're in a strong financial position, we expect to absorb any near-term financial impacts while continuing to invest in projects that are key to our long-term success.

Our Company has a long history of innovation, disciplined management, and a strong long-term financial performance and we are committed to upholding the principles which has -- have sustained this Company success for many decades. And while 2013 was a disappointing year financially, we have entered the New Year with the right plans in place to grow profitably and generate meaningfully improved financial performance in 2014 and beyond.

In the U.S., we have demonstrated our ability to manage the business with discipline and generate strong financial performance even in a challenging environment. In fact, Kathy will outline in more detail we were very pleased with our holiday season results prior to the announcement of the data breach.

In preparation for fourth quarter, we may change this to our holiday promotion and marketing and we were pleased that our in stocks were running at all-time highs. As a result, U.S segment fourth quarter sales were running ahead of plan prior to December 19th.

Looking ahead, we will apply the insights we gained in the holiday season to connect with our guests at delivering merchandize and promotions thoughtfully designed to appeal to them based on what's on their mind at each point in the year, moving Target beyond compelling, to becoming irresistible for our guests.

We made enormous progress in our multichannel efforts throughout 2013 as we meaningfully increased conversion both on our website and on our mobile apps. We acquired Chef's Catalog, Cooking.com and Dermstore, extending our online assortment by providing our guests access to additional high-end brands in key home and beauty categories.

We launched Cartwheel, our unique mobile savings tool which has far exceeded expectations in both adoption and engagement and we accelerated our investments in flexible fulfillment. As a result, throughout the year, growth in our digital traffic and sales outpaced industry averages. We launched in-store pick up chain-wide at the beginning of November and with very little marketing, this new offering became a meaningful driver of digital traffic and sales.

Our store teams did an outstanding job delivering great service when guests arrived to pick up these orders and this is particularly impressive since we launched the service during the busiest time of the year. We will continue to invest in systems, data and processes to enhance our flexible fulfillment capabilities in 2014 and beyond.

In our stores we are committed to enhancing the guest experience by adding dedicated service to key categories like beauty, baby and electronics and by providing training and technology that allows our stores team to go beyond providing basic service to solving problems for our guests. And we're continuing to pilot innovations to our store formats.

Based on the initial rollout of the CityTarget format and the high single digit comparable sales we're seeing in our second year CityTarget stores, we're analyzing opportunities to redeem the size and enhance the flexibility of this format opening up a wider universe of potential sites in dense urban areas.

While on the work on CityTarget continues, we've also developed a separate smaller format called Target Express at about 15% of the size of one of our general merchandize stores, we believe this design provides us with a fantastic opportunity to expand into new trade areas providing a convenient solution to guests who can easily visit one of our other formats.

While we expect to offer a carefully curated assortment in frequency categories like food, health care, beauty and other household essentials, Target Express will also offer discretionary categories including home, electronics and seasonal. Throughout the store we will feature our own brands which offer guests an unbeatable combination of quality and price. We plan to open our first pilot location of this format here in our home market in July so we can carefully study both operational and financial results before we determine our plans to expand this format to other markets.

Throughout the organization we continue to find new opportunities to optimize expenses, freeing up resources we can apply to new initiatives. In 2013 our teams saved approximately $200 million by reprioritizing their activities and finding more efficient ways to get things done. Our expense optimization efforts are not a short-term project but a complete overall of the way we work and the team continues to find new opportunities. As a result, we expect the benefit of our expense optimization efforts to reach $1 billion in annualized savings by 2015. I'm proud that our entire team has embraced this effort to transform how we work.

In Canada the team has moved from a year focused on opening a record number of stores to optimizing the business in run state. As we enter 2014 with a much cleaner inventory position, the team's number one operational focus is on in-stocks, ensuring we have the right quantity of each item in the right place at the right time. In addition, we continue to invest in technology and training to enhance both the tools our team uses and their ability to deploy them most effectively.

We're also continuing to implement innovative marketing and merchandizing programs in Canada to raise awareness for our frequency categories like grocery, household essentials, beauty and healthcare. Throughout 2014 we will focus on conveying the depth and breadth of our assortment in those categories and the unbeatable value we provide to our everyday pricing, 5% of the awards, price match and our flier. With enhanced guest awareness of our unbeatable prices combined with the benefit of improved operations, we expect guest shopping frequency to build throughout 2014, driving improvement in sales and profitability.

While 2013 will clearly be remembered as the challenging year, I am proud of team's efforts to transform our business and position the company for long-term success. And I want to sincerely thank the Target team for their tireless effort to help our guests recover from the data breach. While there is much more work to be done, I'm inspired by their singular focus on our guests and making things right. As a result, I'm confident we will look back on this incident and see that we emerged from it even stronger than before.

Now Kathy will provide more detail on our fourth quarter results and key initiatives as we enter 2014. Kathy?

Kathy Tesija

Thanks, Gregg. In our last conference call, we outlined our plans for the holiday season and mentioned that fourth quarter sales were on track through the first half of November. As we progressed through Black Friday week and the first two weeks of December, guests continued to respond to our promotions and sales ran ahead of our plan.

Following the data breach announcement and the rapid change in the pace of our sales, the team reacted quickly making nimble adjustments to minimize our excess inventory. This quick response allowed us to end the year with a clean inventory position. And while our fourth quarter gross margin reflected the addition of clearance activity resulting from the sales slowdown, our team did a great job minimizing the impact.

As we built our holiday plans, our goal was to cut through the clutter and reach our guests with compelling offers on exciting merchandize, specifically we aligned our weekly deals and events so guests were receiving a clear message across all channels. And because our guests are budget conscious and love to find deals, we intentionally layered promotions across our circular, cartwheel and our catalog to provide unbeatable value. We used our direct channels to drive urgency at key points of the season and we offered more broad attention-getting promotions like 40% off sweaters.

Consistent with past years, we featured hot deals on key items but attracted more attention by offering deeper discounts on fewer items and we were very pleased with the guest response. For the quarter overall, our non-discretionary categories generally saw the strongest sales performance. However, on our more discretionary categories electronics saw an increase in fourth quarter comparable sales led by mobile phones, tablets and video game hardware and software. We also saw relative strength in our sporting goods and housewares categories.

Digital channels had a very strong holiday season. Thanksgiving was our biggest digital sales day ever with mobile devices accounting for a full 25% of those sales. We were recently recognized as having the most browsed app by a smartphone and tablet in 2013 and Mobile Commerce Daily just named Target Mobile Retailer and Commerce Website of the Year. This is the second time we've been named Mobile Retailer of the Year and we're pleased to be the only retailer to be honored with the award twice.

An important factor in our digital success was the fourth quarter rollout of the opportunity to buy online and pick up in-store. In-store pick up requests represented about 10% of fourth quarter digital orders but they peaked at a much higher rate before Christmas as guests relied on the service as a great solution for last-minute gift shopping. About 30% of store visits to pick up an online order resulted in store shopping on that same trip and the size of that store transaction was much larger than an average store trip.

While we've rolled out the capabilities with an external commitment to have orders ready in four hours or less, our team quickly attained our internal goal to have most orders ready in one hour or better. Our survey showed consistently high levels of guest satisfaction with this service and this capability has accelerated our mobile conversion rates.

We're also pleased with the continued growth of Cartwheel, our digital savings app, which ended 2013 with over 5 million users who have already saved more than $43 million. Younger guests are particularly engaged by Cartwheel as more than half of its users are Millennials, a much higher percentage than they represent in our overall guest base.

Redemption rates on Cartwheel are more than 10 times higher than DC and other direct channels like receipt marketing and email and our analysis indicate that its driving incremental trips and sales. Our pre-Black Friday deals resulted in one of the biggest days ever for Cartwheel as they drove one-third of our active users into Target stores on the Wednesday before Thanksgiving.

We continue to work to enhance the Cartwheel experience. We recently added the ability to scan bar codes to find out if there's a Cartwheel deal on an item and added the capability to signup for Cartwheel directly through a Target account and email while continuing to provide access to the App through Facebook.

As Gregg mentioned, we continue to listen to our guests to understand how we can help them move beyond the data breach and feel confident in shopping at Target. While sales have started to recover in recent weeks and sentiment metrics have begun to improve most notably among our best guests. We continue to invest to ensure this recovery continues. Beyond our efforts in data security and chip enabled technology we're applying insights from the holiday season to make our merchandise stores and digital channels even more irresistible to our guests.

We continue to innovate in ways that differentiate both our product assortments and the guest experience, and we’re investing in pricing and promotions to make our value proposition even stronger. We’re very pleased with the response to Peter Pilotto for Target our most recent designer partnership which launched earlier this month. This collection which features a limited edition assortment of women’s apparel, accessories and swimwear is available at most of our U.S. and Canadian stores and on target.com. We have also partnered with Net-a-Porter.com to offer a curated assortment of the collection to fans across the globe. With lots of social media buzz we a saw long lines outside many of our urban stores on the morning of the launch, and the collection quickly became Net-a-Porter’s fastest selling collaboration in history.

Based on last years results Target and Sports Illustrated are once again partnering in support of the magazines annual swimsuit issue which is celebrating its 50th anniversary this year. Target is the exclusive mass retail advertiser and official marketing partner for the issue. This years partnership includes the new 20 page flip cover that celebrates swimsuit style over the past 50 years and features Target's limited edition swimwear collection. The collection launched at Target stores and on target.com February 17, in advance of the issues on stand date and includes 10 black, gold and ivory swimsuits priced from $15 to $30.

Earlier this month, Target began offering AMBAR a new apparel collection designed with the Latina guest in mind. AMBAR is set in 50 U.S. stores this month and is also available on target.com. The line of apparel and accessories features vibrant prints and flattering cuts and silhouettes. This stylish and affordable collection has items ranging from $17 to $40. This spring Target will introduce an assortment of premium skincare featuring seven notable brands, four of which will be exclusively sold at Target. 29 by Lydia Mondavi, Borghese, Laneige and MD Complete by Dr. Zelickson along side industry favorite Vichy, La Roche Posay and Own Skin Health. These brands will be merchandised in two distinct sections, dermatological skincare and specialty skincare, and they have already launched on target.com. We'll begin rolling out the assortment to 749 U.S. Target stores beginning in March.

So what's likely to be the biggest Blu-ray and DVD release of the year Target will offer an exclusive addition of Catching Fire the second film in The Hunger Games trilogy in stores and on target.com next month. The Target exclusive Blu-ray addition includes 45 minutes of exclusive content from never before seen footage and cast interviews to a behind the scenes looks at the making of the film. This spring award winning singer Shakira is teaming up with Target for her 10th studio album and our exclusive deluxe edition featuring three bonus tracks hit stores on March 25. We announced the partnership and kicked off album preordering with a special spot during the 56th Annual Grammy Awards in January.

Last month we became the exclusive retailer to feature Beats music playlists. Beats music is curated digital music streaming services that allows it's users to peep into the personal music libraries of their favorite artists and brands and have them create playlists just for them. By subscribing to Target's playlist guest can expect a very mix of songs inspired by Target's rich heritage of music and the taste of the millions who shop for albums at Target each year. In December we launched The Awesome Shop, a beta site that features the top target products recently pinned on Pinterest. The site lets guests explore, get inspired and see what other guests love just like they do in stores.

Awesome Shop highlighted the best of the best by only featuring items at the target.com review of four stars or better. We're also leveraging Pinterest in another unique way to collaborate with three of the sites most influential pinners on a series of party planning collections that will make it easy to throw a Pinterest worthy event. Joy Cho of Oh Joy, Jan Halvarson of Poppytalk and Kate Arends of Wit & Delight will each create limited time only collections launched over the course of 2014 including party décor, paper products and serving pieces designed in their signature esthetic.

Beyond differentiated merchandise, we continue to provide enhanced service in key areas of the store. Based on guest response to last years launch we have expanded the Target Beauty Concierge’s program to more than 300 stores across the country with new markets including New York, New Jersey, San Francisco and Dallas-Fort Worth. These beauty consultants are brand agnostic and provide guests with detailed, unbiased information and a friendly face in what can often be an intermediating category.

We also continue to see great results from the pilot of our new baby layout, a completely redesigned shopping experience that offers guests inspiring insightful solutions combined with the great value they’ve come to expect from Target. This new layout features a dedicated service desk with a knowledgeable baby advisor to help guests navigate the area and provide unbiased product information. Digital screens and iPads feature inspiration and interactive comparison tools and BabyCenter content such as buying guides and product reviews

We have also incorporated an in department registry kiosk for expecting mom’s or guests looking to give a gift. Merchandised displays have been lowered so guests can more easily interact with large products by travel systems in stores. We have removed barriers to enhance navigation between apparel, gear and baby essentials and we have highlighted the availability of additional online only items in key categories. This summer we plan to grow from 30 stores to more than 200 locations featuring this enhanced baby experience. And based on encouraging initial results in 2014 we’ll expand our test of using mannequins in apparel in our largest format U.S. stores to elevate the store experience, create an enhanced sense of discovery and bring our unique deigns to life.

We also continued to augment our digital capabilities driving traffic and sales to all of our channels. Online our top priority in 2014 is continuing to improve the guest experience. All of our efforts will be designed to make things simple, seamless and enjoyable for our guests. To support this priority we continue to hire external talent with deep functional expertise in online merchandising, site merchandising, mobile and analytics. We have recently made enhancements focused on search, product information and checkout making it easier for guests to browse and purchase. In addition now nearly all store products are viable online making this the only place that guests can use Target’s full assortment. Importantly we’re making enhancements while continuing to focus on stability and speed, as a result target.com consistently ranks in the top 10 for retailer site availability and performance.

Given the profile of our guests, mobile is more important at Target than for many of our peers. For example, Target's guest traffic from tablets and mobile phones is greater than our traffic from traditional computers and the shift towards mobile shows no signs of slowing down. In fact usage of the Target App doubled in the short period between last summer and the end of the year. To maintain our strong momentum in mobile we're testing and learning from new features including List Building, Mapping and Cartwheel capabilities launched during the holiday season. We're improving conversion by streamlining checkouts and enhancing product information and dynamic content and we are investing to amplify the in-store mobile experience by rolling out guided maps, in-store search and expanded assortment chain wide later this year.

We also continue to invest in our flexible fulfillment capabilities which combine the strengths of our digital, store and distribution aspects to provide speed and convenience for our guests. These capabilities allow our stores to add value in new ways, serve our guests as both showroom and fulfillment centers. Following the holiday seasons success of in-store pick up we are moving quickly to roll out the capabilities to shift online orders from our stores this fall.

This new capability will create multiple benefits for both Target as our guests, including shorter shipping times, reduced expenses, lower markdown rates and improved in-stocks. And because our investments in flexible fulfillment drive greater utilization of our existing stores and distribution center assets, we expect to earn an outstanding return on these investments over time.

Finally, we're pleased with initial performance of Target Ticket, our streaming video service and we continue to invest in features to better serve guest changing needs and behaviors both inside and outside their home. In 2014 we will coordinate our promotions across channels to provide irresistible video offers across our stores, Target.com and Target Ticket.

While our fourth quarter results softened following the December 19 announcement of the data breach, we are pleased with the guest response to our holiday season merchandizing and marketing efforts and we're confident in our plans for 2014. As always our focus remains on our guests helping them regain their confidence in their Target while delivering irresistible content and experiences in every channel. We believe that our efforts will drive a continued recovery in the pace of our sales and position Target for profitable growth in 2014 and beyond.

Now, John will share his insights on our fourth quarter financial performance and our plans for the coming year. John?

John Mulligan

Thanks, Kathy. Our fourth quarter financial results reflect strong efforts by our team to handle separate challenges in both our U.S. and Canadian segments. In the U.S. comparable sales declined 2.5% consistent with the updated guidance we provided in our January press release. This sales performance reflects a 5.5% decline in transactions partially offset by an increase in average ticket.

Prior to the announcement of the data breach, fourth quarter comparable sales were running positive reflecting the success of our holiday merchandizing marketing plan. Immediately following news of the breach, sales turned meaningfully negative but began to recover in January. And while it's impossible to measure precisely, we believe we would have seen even more improvement had there not been extreme weather across much of the country.

Fourth quarter sales penetration on our REDcards was 20.9%, up 5.4 percentage points from a year ago. While the rate of increase slowed down following the breach, year-over-year penetration continued to grow hundreds of basis points through the end of the quarter. Fourth quarter U.S. EBITDA and EBIT margin rates were down more than a percentage point from last year's rates, which we were advised to reflect combined results from our former U.S. retail and credit card segments. These profit margins were below our expectations going into the quarter, driven almost entirely by gross margin rate which declined about 20 basis points from the year ago.

This performance reflects about 20 basis points of benefit from this year's change in vendor payments offset by higher than expected markdowns related to the 10% off we offered prior to Christmas as well as the impact of clearance markdowns at the end of the holiday season. Margin mix was somewhat less favorable than the recent quarters, driven by strong sales in electronics. While below our expectations, fourth quarter U.S. segment gross margin rate was remarkably strong considering the team had to rapidly manage excess inventory in the middle of the quarter when we experienced a sudden change in the pace of sales following the data breach announcement.

Our fourth quarter U.S. segment SG&A rate was 18.4%, about 110 basis points above last year's revised rate. About 50 basis points of this headwind was related to the credit card portfolio reflecting a smaller asset base, last year's reserve release and this year's profit sharing arrangement with TD Bank. Another 20 basis points of headwind was driven by this year's change in member payments. The remaining unfavorability reflects the deleveraging effort of negative comp sales.

The fact that we experienced only 40 basis points of deleverage reflects strong control of variable expenses, given the magnitude of our comparable sales decline. In the Canadian segment, sales came in just below expectations. Importantly, as Gregg mentioned, we took advantage of holiday traffic to clear through a significant amount of excess inventory in the quarter. And while we expect some small lingering issues with long lean receipts this year, the Canadian segment ended 2013 in a much cleaner inventory position, paving the way for smoother operations in 2014. In all, the segment drove $0.40 of EPS dilution in the fourth quarter better than the expectations we provided in our January press release.

Turning now to our consolidated metrics, fourth quarter interest expense was 21% lower than last year reflecting the continued benefit of debt retirement funded by the proceeds from the sale of the credit card portfolio. We paid dividends of $0.43 per share in the quarter, an increase of more than 19% from fourth quarter 2012. This was our 185th consecutive quarter in which our company has paid a dividend and 2013 marked the 42nd year of annual dividend increases, a track record of few companies to match.

Consistent with last quarter, we didn't purchase any shares in the fourth quarter reflecting current performance and our desire to maintain our debt rating in the middle A range. This approach aligns with our longstanding point of view on capital deployment. First, we invest what we believe is appropriate in our core business. Second, we support the dividend which we've grown annually for more than four decades. And third, we use share repurchase to return cash within the limits of our middle A debt rating.

We believe a middle A rating is strategically important as it supports our ability to reliably deliver on our unbeatable pricing strategy over time. In addition, our balance sheet provides the flexibility to maintain our long-term focus in the face of unexpected events like the data breach enabling investment and strategic initiatives like flexible fulfillment while we deal with a temporary setback in traffic to sales along with other costs related to the breach.

In addition to operating results in the U.S. and Canada, our fourth quarter GAAP earnings reflects several items that reduced EPS by approximately

$0.09. These items include charges related to our January restructuring, data breach related costs net of an insurance receivable and continued reduction in a beneficial interest asset partially offset by a small benefit from a resolution of income tax matters.

Combining fourth quarter results with performance in the first nine months of 2013 yields full year results that reflect the impact of clear successes and certain challenges. In our U.S. segment, full year comparable sales declined 0.4% well below our expectations going into the year. This reflects the tougher than expected consumer environment including the impact on the payroll tax increase which just annualized last month, the fourth quarter impact of the data breach and recent headwinds from unfavorable weather, as you've heard from many other retailers.

On our U.S. sales, we earned a gross margin rate of 29.8% in 2013, up about 10 basis points from 2012. This rate reflects about 20 basis points of benefit from this year's change in vendor payments combined with very strong underlying margin performance in the face of softer than expected sales. Throughout the year, Kathy's team did a great job managing inventory resulting in outstanding in-stock levels while avoiding unnecessary clearance markdowns.

Our full year SG&A expense rate in the U.S. was 20%, up about 90 basis points from last year's revised rate. Contrary to what you might initially think, this reflects outstanding performance in light of softer than expected sales and some notable challenges representing more than $600 million of incremental pressure. Including credit card portfolio income, which as you know reduces our SG&A rate, about $400 million lower than 2012 reflecting profit sharing with TD, prior year reserve reductions and a smaller asset base this year. And more than $200 million of expense pressure from incremental investments in technology and supply chain to support our multichannel efforts.

Without these impacts, our SG&A expense rate would have been slightly higher than 2012 but would have been neutral without this year's change in vendor payments. This is better expense performance than we'd expect on a decline in comparable sales and was driven primarily by two factors; outstanding performance by our stores organization which continued to provide outstanding guest service while delivering productivity increases and our company-wide expense optimization efforts through which our teams are finding better ways to work while deprioritizing less productive activities.

As Gregg mentioned, the team continues to find new opportunities to optimize expenses and we expect to reach $1 billion in annualized savings by 2015 helping to fund our efforts to drive profitable growth over the next several years. For full year 2013, U.S. REDcard penetration grew nearly 6 percentage points to 19.3% of sales as more and more guests increased their level of engagement and their spending with Target. Penetration in Kansas City where we began offering REDcard awards a year ahead of the rest of the country continued to run well ahead of the U.S. overall.

Importantly, as part of our broader effort to rebuild traffic and sales in 2014 we will work to reaccelerate REDcard growth in light of the recent slowdown in growth we've seen following the data breach. In Canada in 2013 we generated just over $1.3 billion in sales on 124 stores which were opened on average for a little more than half the year. These sales were well below our plan going into the year leading to greater than expected markdowns on a meaningful amount of excess inventory

Expense rate were unusually high as well as a result of opening early cycle stores with too many payroll hours, incurring incremental expense relating to clearing inventory and experiencing less leverage on fixed expenses.

In the face of these challenges, the team worked tirelessly to improve operations and work through excess inventory throughout the year, clearing the way for an acceleration of sales and profitability beginning this year.

Our early cycle store continued to outperform later cycle stores giving is confidence that our operations will continue to become more efficient as our business matures. And having dramatically reduced the congestion in our Canadian supply chain, we will increase the intensity of our marketing message in 2014 regarding value and assortment in our frequency categories. Over time we expect this will lead our Canadian guests to choose Target more often in these categories, driving meaningful increases in traffic and sales.

Turning to capital deployment, our total capital investment was about $3.5 billion in 2013, somewhat lower than expected as U.S CapEx of about $1.9 billion was approximately $300 million lower than anticipated. This outcome doesn't reflect a change in strategy, but is simply the result of a lower than expected cost for certain projects and retiming of suspending into 2014.

Having sold our credit card portfolio, for about $5.7 billion in March, we significantly reduced our net debt position in 2013, including the early retirement of Haikupon debt. And importantly even in a year of peak CapEx and dilution relating to the Canadian segment combined with the impact of softer than expected U.S sales, we still have the capacity to return about $2.5 billion to our shareholders in the form of dividends and share repurchase.

With that as context, let's turn now to our outlook for 2014. But before we get to the numbers, I want to discuss a change in our reporting and guidance practices in 2014. Given that our Canadian segment is now fully operating, beginning with the first quarter of 2014 we will no longer exclude Canadian segment performance from adjusted EPS. To allow for appropriate comparison, last year's adjusted EPS will also reflect Canadian segment performance as well.

With that, let's turn to our full-year outlook beginning with sales. While trends have improved in recent weeks, severe winter weather has been a headwind and we continue to see the impact of the data breach on guest sentiment and traffic. We believe that we will continue to see muted trends in the next few months, but the breach impact will diminish throughout the year as we engage in a vigorous effort to address our guests' concerns and provide irresistible content offers driving business to our stores and digital channels.

In addition, while economic trends are improving, we continue to expect our lower and middle income guests to shop very cautiously in 2014. With that backdrop, our current view is that U.S comparable sales will grow in the range of 0% to 2% in 2014. On those sales we expect a U.S segment EBITDA rate of 10.1% to 10.3%, meaning EBITDA dollar should grow between 5% and 8% this year.

Among the drivers of EBITDA margin, we expect gross margin will improve 30 or 40 basis points from our 2013 rate of 29.8%, reflecting improved clearance markdown rates and more significantly the gross margin benefit of our expense optimization efforts. These benefits will be partially offset by the impact of additional promotional activities and continued investment in 5% REDcard rewards.

We expect the U.S segment SG&A expense rate slightly better than last year's 20% rate, reflecting continued discipline expense control and the benefit of our expense optimization efforts offset by our continued investments in distribution and technology in support of our multi-channel efforts. We expect these (indiscernible) investments to be worth $0.05 to $0.10 of incremental EPS pressure in 2014.

In Canada, we expect total sales will be approximately double our 2013 experience. As we annualize last year's124 openings and begin generating comparable sales growth in mature stores. On those sales we expect to earn a much higher gross margin rate in a range approaching 30%. But clearly we continue to see some near-term volatility until the Until the Canadian business matures.

While we expect to see better fixed expense leverage in 2014, the SG&A rate will likely remain well above our long-term outlook in a range approaching 40%. Altogether, this will lead to a Canadian segment EBITDA margin rate of minus 8% to minus 10%, representing more than $400 million of expected EBITDA improvement from 2013.

We expect U.S capital expenditures of $2.1 billion -- $2.3 billion, up slightly from actual 2013 spending. The mix of U.S CapEx will continue to tilt from investments in new stores towards supply chain and technology as we accelerate our multi-channel efforts and continue to find a limited number of new store sites that meet our strategic and financial criteria.

I should also note that U.S CapEx reflects incremental investments related to our recent decision to accelerate deployment of chip enabled card readers to all of our U.S stores before the end of the year. In Canada we expect 2014 capital expenditures in the $300 million to $400 million range, down more than $1 billion from peak spending in 2013.

We expect once again to raise our annual dividend in the neighborhood of 20% this year, which will mark our 43rd consecutive annual increase. And even with a temperate outlook for near-term traffic and sales and understanding there will be further costs relating to the data breach, our current outlook envision share repurchase capacity of $1 billion to $2 billion in 2014, beginning later in the year as our business stabilizes and we have more clarity on potential breach related costs.

Altogether, these expectations would lead to full-year adjusted EPS representing results from operations in the U.S and Canada of $3.85 to $4.15. This estimate excludes approximately $0.07 of dilution related to the continued reduction in the beneficial interest asset. These 2014 expectations represent an improvement of more than 20% from combined U.S and Canadian segment results in 2013.

Please note that our full-year outlook does not include potential additional costs relating to the data breach beyond what we already recorded in the fourth quarter, as they’re not estimable at this time. While I realize this may result in a wide range of speculation on the magnitude of these costs, given that our investigation of breach is ongoing it would not be appropriate to say anything more about it than we already have this morning.

Regardless of the ultimate dollar amounts, as Greg mentioned, we have the financial strength to move beyond these near-term impacts while we continue to invest in the future. And as always, we are focused on what's most important, addressing the concerns of our guests and helping them to feel confident shopping with us.

Now let's briefly turn to our first quarter outlook. In the U.S we expect first quarter comparable sales in the range of flat to down 2%. So far in February comparable sales have been running within that range, ahead of our forecast and nearly flat to last year. And I should note while growth isn't running where it had been earlier in 2013, REDcard penetration so far in February has been running 100s of basis points ahead of last year.

On our first quarter U.S sales, we expect an EBITDA margin rate of 9.7% to 9.9%. In Canada, we expect to generate first quarter sales in a range of $400 million to $450 million with EBITDA of minus $150 million to minus $170 million.

In light of this near-term operating outlook, we don't expect to have the capacity to repurchase shares in the first quarter, but we expect to resume this activity later in the year. Altogether, our expectations would lead to first quarter adjusted EPS reflecting operating results in the U.S and Canada in the range of $0.60 to $0.75, excluding $0.02 relating to the reduction in the beneficial interest asset and any potential costs related to the data breach.

While this has been a challenging year, we are proud of the work of our team and we believe we have the right plans in place to generate meaningfully improved performance in 2014. As we focus on making Target irresistible for our guests, both today and over time, we believe we will go profitably for many years to come.

With that, we'll conclude today's prepared remarks. Now Greg, Kathy and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Sean Naughton with Piper Jaffray.

Sean Naughton - Piper Jaffray

Good morning and thanks for taking the question. On the same-store sales trends for February being down in that 0% to 2% range, probably little bit better than people expected. I guess you over time, Target has been on an aggressive campaign to drive frequency with REDcard and remodeling more stores towards food, but given that P Fresh is maturing here and the credit breach could curb some of the willingness to sign up for REDcard and online taking a bigger portion of the overall retail landscape. How should we think about some of the big initiatives or the big picture initiatives to drive same-store sales trends in 2014 and beyond?

Kathy Tesija

You know Sean, I think a lot of the things that I talked about today with product as well as with in-store experience and our mobile experience, those are really the key things for us to help drive people to shop at Target beyond the food that you talked about and of course the REDcard.

Sean Naughton - Piper Jaffray

Okay. And then just on the food, I guess, aspect of things, how are you on the in-stocks in that particular category and are you happy with the product that you have out there on the shelf today?

Kathy Tesija

Yes, in-stocks have been rock solid for quite some time. In terms of products, I would tell you that we're always making adjustments to what we carry in-stores. We learn what selling and what trends are picking up steam, things like organics and better for your products. So that's a never-ending thing that we work on.

Sean Naughton - Piper Jaffray

Okay, great. And then just one last thing you mentioned the online and the flexible fulfillment, I think that all of those can now be viewed online which is great for the consumer, but when do you think or is it going to be possible for all of those products for buying online and picking up in-store?

Kathy Tesija

We are expanding the assortment right now. I don't have a date for you in terms of when we'll get our whole assortment up online. And right now we're focusing on the most popular items and categories that we recently added pets, for example, and we'll just continue to expand as we learn more and more about that program.

Sean Naughton - Piper Jaffray

Okay. Thank you.

Operator

Our next question comes from the line of Matthew Fassler with Goldman Sachs.

Matthew Fassler - Goldman Sachs & Co.

Thanks a lot and good morning. I've got two questions and the first relates to inventory. I know you cleared a lot of inventory in Canada. Your year-on-year numbers still across the corporation, across the enterprise is still up quite substantially relative to sales. So if you could comment on sort of the composition of that inventory and your thought process for its impact on margin going forward?

Gregg Steinhafel

Sure. Inventory up about 10% year-over-year and you can roughly think about that split about equally between Canada and the U.S. Canada obviously we're just in a different place than we were a year ago. We built inventories all year as we opened stores. I would tell you in Canada we feel much, much better. We feel very good about the progress we made in the fourth quarter clearing excess inventory. The average inventory per store in Canada from the beginning of the quarter to the end of the quarter was down about 30%. So we still have some lingering issues in Q1 with some long lean receipts but feel very good about the inventory there. In the U.S., I would tell you the merchant team did an outstanding job reacting to the change in sales and our inventories are in excellent shape. This is the time of year where in February we are changing lots of things in the store and frankly depending on where you snap the line for yearend relative to our receipts, we see inventory move around a little bit. If you go back over the past couple of years, our inventory per store in the U.S. is up about 3% versus two years ago. So this is really more timing than anything else and we feel very good about the inventory position.

Matthew Fassler - Goldman Sachs & Co.

That's very helpful. Thank you. And then my follow-up really is to capital allocation and specifically the buyback. I know that you alluded to the company's desire to maintain its current credit rating and that you spoke about resuming buybacks as the year progressed presuming that you are on plan. I just want to talk about what your thought process is for contingent fees? Based on the numbers we've looked at, it seems like you're a long way from coming close to the edge on your current credit rating. So what would it take for you not to do that $1 billion to $2 billion? It seems like that should be well within your financial capacity even if frankly the numbers are a bit light of your current guide?

Gregg Steinhafel

Well, we should go offline and review where you think we are versus our credit rating and where we think we are versus our credit rating. We've actually run pretty close to our credit rating not just last year, which was even higher, but for the past several years. So our view is that we think we can do, given our plans between $1 billion and $2 billion. We need to see our business results improve over the next couple of quarters. We're starting to see that in February as we alluded to. And then also get a little bit of a view into what the potential costs are that maybe coming our way as a result of the breach. But given all of that, we still think somewhere in $1 billion to $2 billion beginning probably in the back half of the year for the year makes sense.

Matthew Fassler - Goldman Sachs & Co.

Just finally, I know you're not going to quantify the cost of the breach, but it sounds like and thinking about the capacity to buy back stock you have somewhere internally a sense of that number that would enable you to pursue that course?

Gregg Steinhafel

As we said, it's not estimable at this time what the potential cost of the breach is and given where we are in the process, it'd be inappropriate for me to speculate.

Matthew Fassler - Goldman Sachs & Co.

Fair enough. Thank you so much.

Operator

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

Greg Melich - ISI Group

Hi. Thanks. I had a couple of questions. Just a quick follow-up on the breach costs. You showed a net, you got some insurance payments from the breach cost that you had. Should we expect that or do you have any insurance for these potential costs whatever they may be or is that sort of a one-off in the quarter? Then a follow-up.

Gregg Steinhafel

Just to be clear, that was insurance receivable, so we haven't actually received payment but we feel very likely to receive payment for a portion of the expenses we incurred in the fourth quarter. What we can say about insurance right now is at this point we think there's $44 million of insurance that we'll receive. And to the extent that number changes, we'll be back here to provide more information.

Greg Melich - ISI Group

Okay, great. And a bigger picture on REDcard and traffic. I mean traffic was down 5.5% in the quarter. Presumably post the breach it was down – pick a number like 7% or 8%. Is it fair to say that traffic has recovered back to what it was in January and February where we are now and how is REDcard seasoning [ph]? Those people have now had it for three of four years, how are those people behaving following the breach? Thanks.

Gregg Steinhafel

Yes, on traffic you're view of what happened post the breach is pretty accurate and we have seen traffic continue to improve and firm up and definitely throughout February we've seen traffic firm up. And as we said, sales have improved and a big part of that has been traffic. On the REDcard what we've seen and Kathy talked about this a little bit, in our REDcard guest, they've continued to shop with us and we've seen very strong sales from that. REDcard penetration continues to grow meaningfully hundreds of basis points year-over-year. And to the extent we're not growing where we used to that's driven by new accounts. So the guests who have REDcards continue to shop our stores.

Greg Melich - ISI Group

So it's more of the penetration growth from new people signing up or from people that signed up shopping more?

Gregg Steinhafel

As has been the case over the past couple of year, the penetration growth comes from new accounts.

Greg Melich - ISI Group

Thanks a lot. Good luck.

Operator

Your next question comes from the line of Matt Nemer with Wells Fargo Securities.

Matt Nemer - Wells Fargo Securitie0073

Good morning. Thanks for taking my questions. I'm just wondering if you could provide a little more color on the top spreads that you're seeing between states that have been severely impacted by weather and some of your warmer weather states?

Gregg Steinhafel

Great question, Matt. It's analyzing weather isn't a perfect science. I would say when we see – in the Midwest, in the Northeast when we've seen these weather patterns go across the country, the spread is significant between the two. But ultimately as that passes, we see them re-stabilize and everything come back to normal. But the difference while it is going on is pretty dramatic. It's in single digits difference but it'd be high single digits.

Matt Nemer - Wells Fargo Securities

Okay. Thanks. And then secondly, you gave some great detail on your investments in digital and ecommerce this year. As you enable click and collect and fulfillment from store, are there any significant investments you need to make in terms of inventory, accuracy in the store and could you just give us maybe a bit of color on how that's running in terms of being able to pick up in-store?

Kathy Tesija

We're always working on inventory accuracy and that is a combination of how we use our systems as well as the processes in-store. And so it's been less of an issue to date as we get into some of the additional categories, things like beauty where there's a lot of SKUs, we got to make sure that the accuracy is there. I will tell you apparel, while we've had good results there, it's a little bit harder partly accuracy but partly being able to find the exact size when it's not in a planogrammed environment. So there are a few challenges for us to figure out, but overall I would tell you that our guest response has been very positive in the survey comments that they have back to us. They really love the service. So, yes, we will keep working on accuracy to make sure that we can fulfill as many orders as possible. But so far we're very pleased.

Matt Nemer - Wells Fargo Securities

Okay. And then lastly, your SG&A per foot in the U.S. was down pretty substantially in the fourth quarter versus the last few years. Well how should we think about SG&A per foot on a full-year basis for ’14 in the U.S. should it -- is that a number that you can keep relatively flat or is there just some inherent inflation there that we should expect?

Gregg Steinhafel

First, the comparison to last year we have to be a little bit careful, there’s a 53rd week in there that’s a relatively low volume week which creates a little bit of distortion year-over-year. But I think, as I said we continue to work very hard on store productivity ensuring that we're driving great guest experience and in-stocks, but also improving our productivity. And then all of the expense optimization efforts continued to go on and some portion of that will fall to the bottom line, some portion of that goes to gross margin and some portion of that gets reinvested in the business as we invest in multi-channel technology supply chain. But I think flat to up slightly is probably about the best way to think about it.

Matt Nemer - Wells Fargo Securities

Thanks. Good luck this year.

Gregg Steinhafel

Thank you.

Operator

Your next question comes from the line of Robert Drbul with Nomura.

Robert Drbul - Nomura Securities

Hi, good morning. Just a couple of questions, first on -- you gave a number on the online business in terms of the increase that you had in the fourth quarter?

Kathy Tesija

We didn't give a number, but I'll tell you it's very positive above the industry and slightly above 20%.

John Mulligan

Well I'd be honest to the business, it was impacted by the breach as well.

Robert Drbul - Nomura Securities

Okay. And then, when you look at the full-year, actually pointing out you gave a lot of details, in terms of like the sales recovery that you have, what are the key factors that gave you the comfort and confidence in the recovery over this year as you plan the earnings and sales trajectory?

John Mulligan

Well, it's from our perspective we got to up our game on all fronts, it starts with delivering great content, great in-stocks, our team is more engaged than ever from a service standpoint both on the sales floor and at the lanes. And we're going to deliver as Kathy said just some eye popping irresistible deals. So we're going to really up the [ante] [ph] as it relates to making a statement on our unbeatable pricing proposition which we have. I mean we price matched the competition, and we run our circulars and with our 5% REDcard rewards program our pricing, our value proposition is unbeatable. So we're just going to call greater attention to that and selectively we're going to go out and be more aggressive in that regard. And so it's the combination of all of those elements.

Robert Drbul - Nomura Securities

And then on the gross margin outlook for Canada, can you just talk about the mix assumptions in there and sort of also like the ramp from where you finished fourth quarter to get to that 30% number for the year?

John Mulligan

Sure, mix in Canada continues to be stronger in apparel and home. And we expect that to moderate through time. We ultimately think the mix there will be stronger than what we see in the U.S. but a lot like our high volume stores in the U.S. our urbane stores in the U.S. we see a higher mix of home and apparel sales. That will moderate through time because we want to drive the frequency categories, that's what we're working on the team in Canada ultimately if they're successful in driving conversion and commodities, grocery, food all those categories we'll see that mix moderate. I think we'll see margin – we expect to see some volatility, Q1 for instance the margin rate won't be at 30%, but it will be significantly improved from the 4.4% we recorded in the fourth quarter. So we'll make progress and you should expect to see that throughout the year and of course back in fourth quarter next year we'll be down a little bit from that 30% as it's typical on our U.S. business given that time of year.

Robert Drbul - Nomura Securities

Great. Thank you very much.

Gregg Steinhafel

Okay, we have time for one more question please.

Operator

Okay. Your final question comes from the line of Chris Horvers with JPMorgan.

Christopher Horvers - JPMorgan Securities

Thanks and good morning. A couple of random questions, so could you perhaps breakout how much was the explicit impact of the 10% off deal that you did after the breach and right ahead of Christmas?

John Mulligan

Chris we don't breakout promotions individually, it was a big time of year and the number was relatively large but in the big scheme in the fourth quarter I would tell you it's not material.

Christopher Horvers - JPMorgan Securities

Okay. And then on the cost savings side, I guess how much of the billion dollars is done so far and what has been the big drivers this year that have taken those costs out?

John Mulligan

There's $200 million that we recorded in 2014 we'll annualize on that next year. And the savings came from all over the corporation. There were savings in gross margin around transportation expenses that will grow again in 2014. There were savings really it's for it to pin it down, it was literally across the entire organization where we looked at things. We looked at how we sourced product and aligning our non-retail product that we source in services and making that look more like we do in merchandising and we saw significant savings there from our sourcing. There's more to do there and we'll see that grow in 2014 as well. But as Gregg said it was literally across the entire organization where we were focused on stopping things that we didn't need to do, I mean if we did need to do them improving productivity.

Christopher Horvers - JPMorgan Securities

And then, one last one; how would have the – if you had chip technology in your stores this past year how would the breach outcomes change, would it stop the actual CES to the credit card data or would it stop the personal information disclosure?

John Mulligan

The chip technology makes it such that using the account numbers without the card becomes very, much more difficult. And so the desire to obtain those card numbers goes down significantly. What we've seen in other countries that have adopted chip technology as fraud rates go down dramatically for in-store transactions. I think in the U.K. or Europe I can't remember exactly down like 60%, once chip technology was enabled. And so the desire, those account numbers just become less desirable.

Christopher Horvers - JPMorgan Securities

But didn’t the breach actually come from systems internally not necessarily coming from the card readers.

Gregg Steinhafel

Yes, Chris we’re in the middle of an investigation and we can’t talk about the specifics. We continue to learn, there’ll be learning’s that come out of that investigation and from those learning’s we’ll take actions and that’s about what we can say today.