Thank you. Good morning, everyone, and welcome to our 2011 Fourth Quarter and Year End Earnings Conference Call. On the line with me today are Kathy Tesija, Executive Vice President of Merchandising; Doug Scovanner, Executive Vice President and Chief Financial Officer; and John Mulligan, Senior Vice President, Treasury and Accounting, who as we announced last month, will succeed Doug as EVP and CFO beginning April 1.

This morning, I'll provide a high-level summary of our fourth quarter and full year results, along with our strategic priorities in 2012, and Kathy will discuss category results, guest insights and upcoming initiatives. Doug will provide detail on our fourth quarter financial performance and progress toward our long-term financial goals. And finally, John Mulligan will provide our outlook for the first quarter and full year 2012. Following John's remarks, we'll open the phone lines for a question-and-answer session.

As a reminder, we're joined on this conference call by investors and others who are listening today to our comments today via webcast. Following this conference call, John Hulbert, Doug 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 our SEC filings.

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

We are pleased with Target's full year financial results, which reflect the ability of our teams to manage our businesses in an up and down environment. Our fourth quarter adjusted earnings per share, which we report as a measure of the performance of our U.S. businesses, were $1.49 per share this year, up 8.3% from 2010. For the year in total, our adjusted earnings per share were $4.41, up 14.3% from a year ago.

For the fourth quarter, our comparable store sales increased 2.2%, more than a percentage point below our expectation as we entered the quarter. This shortfall was concentrated in the peak of the holiday season as promotional activity throughout Retail was exceptionally intense, and we chose to maintain an appropriate balance between driving sales and profitability. Post-holiday, the pace of our sales returned to the much stronger pre-holiday pace, and we've seen sales momentum build, particularly in discretionary categories. Against that backdrop, our teams did an outstanding job maintaining the business, controlling fourth quarter inventory and maintaining our operating margin rates at healthy levels.

For the full year, we grew our comparable store sales by 3%, our best annual performance since 2007. This growth reflects investments made in our remodel program and 5% Rewards loyalty program, both of which continue to drive incremental traffic and sales. These strategies make Target a more desirable shopping destination and enhance guest loyalty, both of which are critical for our long-term success.

As you all know, last year's macroeconomic environment was less than robust due to slow GDP growth, persistent high unemployment, housing weakness and stagnant incomes, particularly for lower and middle class consumers. Both our PFresh remodels and 5% REDcard Rewards loyalty program were particularly valuable in this environment, allowing us to maintain positive traffic and growing our comparable store sales in line with our long-term financial goals.

For the year, our teams did a great job of managing the profitability of our Retail sales, largely offsetting the gross margin pressure from our sales driving initiatives through expense leverage. This discipline kept our operating margins in line with our goal and past performance, while maintaining strong service levels in our stores.

And for both the quarter and the year, the Credit Card team did an outstanding job managing our receivables portfolio, generating outstanding profitability on a planned decline in the asset base. Of course, beyond the profits directly measured in our Credit Card segment, our credit and debit cards serve as the platform for our 5% Rewards and REDcard Free Shipping loyalty programs.

In our Canadian segment, we reached the halfway point between the commitment to expand into Canada and our expected store openings in spring 2013, and I'm very pleased with our progress. We have a strong executive team in place at our new headquarters in Mississauga, Ontario, and we continue to hire talented team members who will help bring the Target brand to life for our Canadian guests.

In addition, we're building 3 distribution centers across Canada, and we recently hosted our first all-day joint planning session with the Canadian vendor community to familiarize them with the Target brand and our expectations and begin developing the foundation for our joint business planning process.

While it has certainly been a volatile year for both the economy and our businesses, our teams have stayed rock solid, with consistent execution and a passionate commitment to our brand and our guests. Our team is the foundation of our ability to generate strong financial performance and a world-class brand.

Looking ahead, we believe the pace of economic recovery will continue to be slow and uncertain. We've been encouraged by recent improvements in some key economic measures, and we're pleased with the pace of our sales since the holiday season. Yet we expect we'll continue to see mixed signals in the economy going forward. We're continuing to plan our business appropriately, maintaining flexibility to chase business if we see more robust improvement in jobs, housing and household income. Yet, even our base case assumption of a continued slow and uneven recovery would allow us to stay on track to achieve our long-term financial goals of $100 billion or more in sales and $8 or more in earnings per share by 2017.

As we look ahead to 2012, we expect to open 20 to 25 stores, adding 15 to 20 locations, net of relocations and closures. Including in this new store plan are 5 CityTarget stores which will begin opening in July. While these slightly smaller urban stores will incorporate the Target brand and store experience, we'll tailor our assortment to meet the needs of the trade area and adapt our operating routines to work in smaller spaces with higher traffic.

Our initial group of pilot locations will allow us to further optimize assortments and refine processes, enabling these stores to operate at peak efficiency. We plan to take time to learn from these stores before we determine the appropriate pace of investment and number of additional CityTarget stores we'll open over the next few years. In addition, we'll apply what we learn in these pilot stores across the chain in our larger U.S. stores and in Canada.

In 2012, we'll continue to remodel existing general merchandise locations, adding perishable food along with a deeper assortment of dry, dairy and frozen items and enhanced store layout and presentation in areas including apparel, home, beauty, shoes and baby. Our teams performed a record number of these remodel projects in 2011, completing nearly 400 and bringing us to a total of nearly 900 general merchandise stores. This year, we expect to complete approximately 230 more general merchandise remodels in the U.S., bringing us to more than 1,100 stores by the end of the year.

Additionally, we'll continue to selectively remodel a number of Super Target locations and expect to complete approximately 10 of those projects this year.

In 2012, we'll also continue to enhance guest loyalty with programs like 5% Rewards and REDcard Free Shipping. Penetration of sales on our debit and credit cards continue to run well ahead of the year ago and has now reached a level beyond any point in our history. Penetration in the Kansas City market, which launched 5% Rewards a year ahead of the rest of the country, is still growing and well ahead of the rest of the chain, giving us a high degree of confidence that this program will continue to be a meaningful growth driver in 2012 and beyond.

Beyond these large initiatives, Kathy and her team are focused on driving excitement for our assortments, turning well-designed merchandise from partners like Jason Wu and Missoni, with a guest experience that's unique in Retail. We know that we need to continue to stay fresh and innovative, becoming even stronger as a destination for great style and design. Kathy will provide more specifics in a few minutes.

And of course, we continue to devote meaningful resources to our multichannel efforts. Our teams continue to work diligently, implementing hundreds of fixes to target.com to address issues that have emerged since the launch of our new platform last fall. As a result of these efforts, performance metrics for the site have already meaningfully improved.

We're planning multiple additional releases this spring to continue enhancing the website, and I can assure you that there is no higher priority for this management team than to bring a great experience to our guests of target.com, just as we put the highest priority on the guest experience in our stores.

Finally, selling our Credit Card receivables portfolio to the right partner at the right time on appropriate terms continues to be one of our top priorities. Our announcement in January that we're taking a pause in our efforts did not reflect a change in our desired outcome, but only in our thinking around the timing of a potential transaction.

John Mulligan, Terry Scully and our finance and Credit Card teams expect to once again engage with potential partners later this year, with the goal of concluding an agreement with a partner by a year from now. In addition, Doug will be available as a resource in these discussions until his part-time engagement with us ends in early November.

Before I turn the call over to Kathy, I want to thank Doug Scovanner for his tireless work on behalf of Target and our shareholders. Doug and I have worked closely for 18 years now, and he has been a trusted colleague throughout that time. Doug has always maintained that it's his desire to retire young, and despite my efforts to try and talk him out of it, he has stayed true to that goal. Both Doug and his contributions will be missed, but he has developed a talented finance team and an outstanding successor in

John Mulligan, and I am highly confident John will uphold this company's tradition of having a superior CFO who is a strategic thinker and trusted partner to the CEO and broader leadership team. Additionally, Target's commitment to financial discipline and shareholder value creation remains as steadfast as ever.

Now Kathy will provide more detail on fourth quarter results, share recent guest insights and outline initiatives for 2012 and beyond. Kathy?

Kathryn A. Tesija

Thanks, Gregg. As you know, competitive intensity reached an all-time high during the holiday season. Research indicates that across retail, 2 out of 3 holiday season purchases in gift-giving categories were on some sort of promotion, and these promotional discounts were significant, ranging from 25% in some categories to more than 50% in others.

Against that backdrop, I'm very pleased that we came into the season with a conservative position, allowing Target to offer compelling value without the need to desperately participate in an unprofitable race to unload excess inventory. We ended the season clean, and we're pleased that our sales trends reverted to a more normal pattern following the holiday.

The margin mix of our fourth quarter sales was solid and in line with the rest of the year. Among need-based categories, Grocery continues to lead the way with double-digit comps as we continue to add square footage in our remodeled stores, and our general merchandise guests increasingly associate Target with food.

Beauty and apparel led our discretionary categories in both the fourth quarter and the year. In apparel, we've seen particular strength in boys and girls and Performance Activewear, both signature businesses for Target. Home was down slightly for the quarter, consistent with third quarter results, with stronger results in Housewares and seasonal categories. Hardlines comps were the most challenging in both the fourth quarter and the full year. These industries are experiencing soft secular trends overall, and fourth quarter promotional intensity was the most severe in these categories.

Our sales throughout 2011 reflected the impact of cost inflation, primarily in apparel, soft, home and food. As expected, we've been able to generally maintain gross margin rates within these categories by managing costs, and when necessary, raising retail prices. Also as expected, guests have maintained their dollar spending by purchasing fewer units in categories that saw retail price increases. Recently, costs have begun to level off, and as we look ahead to 2012, we believe our guests will continue to achieve a balance between units and price, maintaining their dollar spending within their household budgets.

As we look at the impact of our 2 large growth initiatives in 2011, it's clear that we are successfully leading our existing guests to become increasingly loyal and engaged. Even prior to the launch of 5% Rewards, our REDcard guests were among our better and best guests, shopping more often, spending more at Target and shopping a greater number of categories each trip. Since the launch of this new loyalty program, each of these metrics has improved, making REDcard guests even more valuable.

With our store remodels, we create a more relevant assortment which invites our guests to make more of their shopping trips with us, and they've responded, adding trips and sustaining that higher frequency over time. Initially, these extra trips tend to focus more on food and commodity categories, but over time, these trips expand to more of the store.

Programs like these, which deepen the relationship with our guests, continue to sustain our sales performance in an environment where moderate income households are cutting trips and spending. Data from 2011 indicates that we held or gained wallet share across multiple guest segments, but we gained the most wallet share from our already better and best guests, demonstrating the power of these programs.

As we look to 2012, we'll continue to drive growth with existing programs and look for new ways to drive loyalty like our REDcard Free Shipping program, which we launched in the fourth quarter. In 2012, we're expanding our Pharmacy Rewards program beyond REDcard members in an effort to build greater loyalty among our current pharmacy guests. Like 5% Rewards, Pharmacy Rewards is a powerful tool for generating additional trips and sales across our assortments. By expanding this incentive program to non-cardholders, we expect to bring millions more guests to the program, generating incremental traffic and sales.

Beyond loyalty programs, our merchant teams are constantly striving to bring guests the right assortment of trusted national brands, high-quality own brands and a steady stream of surprises with Target exclusives and limited time-only partnerships. Over time, we've engaged in more than 80 unique design partnerships, elevating our brand while creating a sense of urgency and excitement for our guests.

Following up on our Missoni for Target collection last fall, we've been very pleased with the results of our collection with acclaimed designer, Jason Wu. The guest response was incredibly strong as they lined up outside of Target stores across the country the morning of the launch.

We're also giving guests in Canada a chance to shop this amazing collection. As we announced last week, today, Target opened a one-day only Jason Wu for Target pop-up store in Toronto. The event, which includes a private, media and influencer gathering and consumer shopping experience is Target's first brand activation in Canada.

Gwen Stefani's Harajuku Mini for Target collection has proven a big success in both generating buzz and driving sales. We launched this collection of affordable Apparel & Accesories for infants, toddlers and tweens in November and added more content at the end of December. Additional collections will be made available throughout the year.

World-renowned actress, singer and best-selling children's author, Julie Andrews, in collaboration with Target and The Walt Disney Company, is launching the first National Princess Week beginning April 22 in Target stores and online at target.com. We'll feature an array of Disney Princess merchandise, including apparel, toys, books, CDs, movies, personal care items and stationary, many of which are exclusive and will highlight beloved princess characters such as Ariel, Cinderella and Snow White.

In music, we partnered with Grammy award winner Adele to re-release her album 21 with 4 exclusive tracks. Target launched a new spot for the re-release immediately following Adele's performance at the Grammy Awards, and the guest response shows that both the ad and the album have been wildly successful.

To usher in the spring season, we are launching a campaign to show our guests that color changes everything. This campaign supports our discretionary apparel, Home and Beauty categories with a simple upbeat theme. We're supporting this campaign with bold in-store signing, along with print, broadcast and social media marketing. We launched the campaign with a 60-second spot during the Grammy Awards that continues to generate an amazing amount of buzz.

And finally, we're very excited about The Shops At Target, which we announced last month. Beginning May 6, we will create a sense of discovery with surprising designs across a variety of departments. Flight one will include collections from 5 very different, very unique shops from around the country, offering unique products in beauty, apparel, pets, home and candy. The collection will be available for a limited time and we'll launch other flights later in the year. Beyond this new strategy, we'll continue to work with designers and brands to create Target exclusive collections. The Shops At Target is simply our latest innovation in our effort to make great design accessible at amazing prices.

I'm quite pleased with our plans for 2012 and our sales momentum coming out of the holiday season. We're constantly listening to our guests and developing new ways to give them what they want and need. This year, we will continue to focus on providing unbeatable value, while inspiring our guests every time they shop with us, deepening their loyalty to Target.

Now Doug and John will cover fourth quarter financial performance and our outlook going forward. Doug?

Douglas A. Scovanner

Thanks, Kathy. This morning, I'll provide additional detail on Target's 2011's financial performance, and I'll benchmark that performance against the long-term financial plan we discussed with you in detail last August at our Financial Community Meeting. Then I'll turn it over to John Mulligan who will provide insight into our plans for 2012 and beyond.

Our 2011 performance reinforces our belief that we remain right on track to achieve $100 billion or more in sales in North America and $8 or more in earnings per share by 2017. To summarize, we expect to achieve this sales performance 5 years from now through a combination of achieving 3% average annual growth in our U.S. comparable store sales and by generating $6 billion or more in annual sales in Canada by 2017.

And we expect to translate this sales performance to $8 or more in consolidated EPS by maintaining our current U.S. Retail EBITDA margin rate of about 10% and by deploying excess cash flow to retire 3% to 4% of our shares annually throughout that period.

In 5 years, this recipe would result in about $7.20 in earnings per share on $94 billion-plus in U.S. sales and about $0.80 a share on $6 billion-plus in Canadian sales. This performance would also enable us to grow our dividends to $3 or more per share by the end of that period, representing a compound growth rate of about 20% per year, matching our dividend growth rate actually achieved over the last 5 years.

As you know, we recently began reporting an adjusted EPS metric to allow all of us to measure Target's progress against our goal to grow this measure from $3.86 in 2010 to our objective of $7.20 or more by 2017. In order to remain precisely on track, you can calculate that we would be expected to generate adjusted EPS of about $4.20 in 2011, $4.60 in 2012, $5 in 2013, $5.50 in 2014 and so on. These are simply the calculated figures that define the precise and smooth path from $3.86 in 2010 to the $7.20 U.S. component of our expected 2017 performance. As such, they represent the benchmarks against which our results and our future guidance should be judged.

So let's review our 2011 U.S. performance in this light. We generated annual comparable store sales growth of 3.0%, spot on our long-term objective, driven in part by adding 340 basis points of sales penetration on our branded, credit and debit card products. We achieved a 10.0% EBITDA margin rate in our U.S. Retail segment, again spot on our long-term objective on this critical metric.

We had an outstanding year in our U.S. Credit Card segment, and we retired more than 5% of our shares during the year. Altogether, we earned adjusted EPS of $4.41 in 2011, well above the relevant $4.20 benchmark, with Credit Card allowance reductions driving the favorable variance. Even if we ignore the reality of this 2011 income from allowance reductions resulting [ph] from reduced risk, we still slightly exceeded the relevant adjusted EPS benchmark. In other words, in 2011, we delivered performance in the U.S., fully consistent with the performance levels required over time to meet our objectives, and we retired a greater percentage of our outstanding shares than necessary to keep up the pace.

Importantly, we achieved all of this while laying a very strong investment foundation for a bright future for Target in Canada. Viewed from another prospective, one year ago, we outlined how we plan to grow EPS 10% or more in 2011 from the adjusted EPS of $3.86 achieved in 2010, and our 2011 results well exceeded that growth rate although with several notable variances.

On the one hand, we fell short of achieving our earlier more robust forecast for U.S. sales growth. In our Canadian segment, EPS dilution ended up a little higher than we expected. By the way, this higher dilution was due in part to faster and more substantial share repurchase execution and a lower Canadian tax rate, both of which will create substantial shareholder value over time. In EPS terms, these factors were more than offset by the much stronger-than-expected performance of our U.S. Credit Card segment and by the larger-than-expected EPS benefit, driven by buying back more shares and buying them sooner than expected.

I'll leave you with one final thought regarding our valuation. Many of you directly incorporate our near-term Canadian -- reported Canadian losses into a PE analysis of Target. To be clear, this makes no sense to us. Even if our future Canadian profitability were to fall short of our expectations, it's almost certain that we'll enjoy some amount of income once preopening expenses are behind us late next year. Our view is that a valuation analysis of Target today should begin with an assessment of the value of our U.S. business segments, which we estimate will earn between $4.55 and $4.75 in 2012 and which we believe are likely to grow on average 9% to 10% per year for many years to come, inclusive of the benefit of significant and growing ongoing share repurchase.

On top of that U.S. valuation, one should add the amount you believe Canada is worth. Our view is that Canada is worth several dollars per outstanding Target share as of today and very likely much more over time. Even if you elect to severely discount our view, it's impossible for us to understand why you would elect to subtract anything instead of adding something for the substantial profits and cash flow we'll generate in Canada beginning very soon.

With that, I'd like to introduce John Mulligan, who will provide more detail on our outlook for the first quarter, full year 2012 and beyond. John and I have worked together for many years, and I am confident he will take us to the next level. John?

John Mulligan

Thanks, Doug. I'm excited to be here with you today to cover our plans for 2012 and beyond, and I'm also looking forward to meeting and getting to know all of you in the coming months. As Doug just highlighted, our 2011 performance keeps us right on track to deliver our long-run financial goals. Today, I'm going to highlight how our plans for 2012 keep us on track to meet those goals, even while we face some unique dynamics created by investments in our Canadian market launch.

In the U.S. Retail segment in 2012, we're planning comparable store sales of 3% or a little more for the full year. This performance is expected in an environment of continued sluggish economic growth, supplemented by the impact of our remodel program, which continues to meet or exceed our traffic and sales goals, combined with growth driven by 5% Rewards.

Based on our experience with this loyalty program in Kansas City, which has exceeded our expectations, we now expect the penetration of sales on our cards across the country will grow another 300 basis points or more in 2012, moving us beyond 12% penetration for the year.

In 2012, we expect these traffic and sales driving strategies will drive a small gross margin rate decline for the full year. And we'll rely on teams throughout the company, but most notably our store teams, to continue this strong record of disciplined expense control, allowing us to offset gross margin rate declines along with expense pressure related to our multichannel investments.

In total, these expectations would sustain our EBITDA margin rate at around 10% in 2012, consistent with our long-range financial plan and our actual results in 2011. This also means that expected leverage in depreciation and amortization would achieve a Retail EBIT rate of 7% or more in 2012, also consistent with our long-range plan.

In our Credit Card segment, we expect outstanding profitability to continue. And as you saw on our fourth quarter results, we're now cycling against a period of meaningful reserve reductions, which will continue through the third quarter of this year. We expect the size of the portfolio to continue to decline, although at a slower rate as our newer, higher-quality accounts have a much lower tendency to revolve, while still driving significant incremental sales for Target. As of today, this means we expect 2012 average receivables will decline another $0.5 billion or more from 2011.

Given these expectations, we expect to generate a spread to LIBOR in the range of 7%, reflective of a very healthy portfolio, corresponding to fewer segment profit dollars in 2012 than we experienced in 2011 for the reasons I've outlined. As we discuss this segment in 2012, spread to LIBOR will become a more important metric because pretax ROIC has become less useful analytically with the retirement of the Chase financing at the end of 2011. As you know, we funded this repayment with low-cost unsecured debt, and therefore, the interest cost associated with this new funding will not be recorded in the Credit Card segment.

In Canada, we'll continue our work to open 125 to 135 stores in former Zellers locations, with the first wave set to open in spring 2013. In total, we believe the expense associated with these activities will drive around $0.50 of EPS dilution in 2012, at the high end of the range we laid out at our Analyst Day last August. As Doug noted earlier, if we end up with a lower-than-expected Canadian tax rate or faster-than-expected share repurchase in 2012, we might end up with slightly more than $0.50 of Canadian dilution. In fact, these 2 factors are the reason our dilution expectations have moved to the high end of the range we outlined last August.

Of course, that's good news, because both of those events are key value creators in the long run. Among the components of 2012 expenses driven by our Canadian investments, fourth quarter 2011 Canadian D&A and interest expenses were close to the run rates you'll see in each of the 4 quarters of 2012. On the Canadian SG&A line, we expect to see quarterly increases throughout 2012. As the team there continues to grow as planned, we'll begin to incur dead rent on Zellers locations around midyear, and we buildout our Canadian distribution and IT solutions.

Now let's turn to our expectations for our capital structure and deployment of cash in 2012. We expect about $3.3 billion of capital expenditures in 2012, reflecting approximately $2.5 billion in U.S. Retail segment, essentially flat to 2011, as we continue to make investments in our substantial ongoing remodel program, new stores, distribution, multichannel and other IT projects.

We expect 2012 capital expenditures of approximately $800 million in Canada, down from just under $2 billion in 2011. We expect to continue our uninterrupted record of quarterly dividend payments, and we believe our board is likely to increase the annual dividend later in the year as well. Beyond these investments, we believe our debt ratings will continue to accommodate meaningful share repurchase, allowing for $1.5 billion or more in 2012. At current share prices, this would allow us to retire more than 4% of our shares in 2012.

If a Credit Card receivable sale were to occur later in the year, we'd be able to dedicate a portion of the proceeds to share repurchase, increasing our 2012 capacity beyond this level.

So let's put this all together. In our U.S. businesses, we expect to generate adjusted earnings per share of $4.55 to $4.75 in 2012, putting us right on the growth curve Doug highlighted earlier. Adding our expectations for Canadian dilution would result in 2012 GAAP earnings per share in the range of $4.05 to $4.25. Given our outlook for 2012, we believe we'll stay firmly on track to achieve the benchmark EPS Doug laid out of about $5 or more in 2013 adjusted earnings per share. In Canada, we believe we'll experience less dilution than we did in 2012, and we'll provide a more precise estimate as our plans develop. We continue to expect that the Canadian segment to become accretive in the fourth quarter of 2013, something we first outlined for you last August.

Finally, I'll cover our expectations for the first quarter of 2012. As we look at our business today, we feel very good about where we are headed. Our current comparable store sales forecast for the quarter is roughly 4%. And for what it's worth, our February comps have been running well ahead of that pace. But as we all know, we shouldn't get too excited about single-month trends. We expect to deliver first quarter Retail EBIT margins in line with last year's performance.

In the Credit Card segment, we expect to generate a spread to LIBOR in the 7% range. However, we'll face our toughest comparison during the year as we annualize $125 million in reserve reductions from a year ago. Altogether, our current forecast is for Target to earn $0.97 to $1.07 of adjusted EPS in the first quarter of 2012, with GAAP EPS reflecting about $0.09 of dilution from the Canadian expenses.

Now Gregg has a few brief closing remarks.

Gregg W. Steinhafel

We're very pleased with our 2011 financial results and our sales trends coming out of the holiday season. Our plans for 2012 support our long-term financial goals, while we invest in new stores both domestically and in Canada, deepen our multichannel capabilities and continue our ambitious remodel program. On top of investments in our core business, we expect to continue returning meaningful cash to shareholders through dividends and share repurchase in 2012 and beyond.

That concludes today's prepared remarks. Now Kathy, Doug, John 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 Greg Melich with ISI.

Gregory S. Melich - ISI Group Inc., Research Division

I guess my main question is on the quarter, how sales progressed. You mentioned, Gregg, in your prepared comments how the holiday period was promotional, you guys successfully avoided it. But it was also when your comp was weakest and the traffic was weakest. How much of that do you think was driven by online, particularly for the mid-December period where shoppers seem to just be going more and more online? And how do you expect to address that especially given your .com launches and some of the challenges you had back in September?

Gregg W. Steinhafel

Yes, .com did contribute a portion of that, but it was a combination of .com and really those first 3 weeks in December that were the softest in terms of that holiday timeframe. And as I mentioned, we were down about 1%, and in that timeframe, we were strong leading in, we were strong coming out. So we're highly confident that the core fundamentals of our business are really, really solid. And as we move into this year, we're going to continue to work really hard over the next 6 months to prepare and get our multichannel program together so that when we hit fall, we are really ready to go, and we expect then for that growth rate to exceed the company's growth rate, and it will be a positive contributor to our same-store sales increase instead of the other way around last quarter.

Gregory S. Melich - ISI Group Inc., Research Division

And just to be clear, .com hurt the comps in the quarter or did it still help, just not as much as you hoped?

Gregg W. Steinhafel

Well, it hurt. It hurt the comp in the quarter, and the primary timeframe where it hurt the most was really in the November, first couple of weeks of December timeframe. And as we have added fixes to the website and maintained the stability and worked on things like site navigation, speed, page loading, waiting and the overall experience, we have seen our business on the .com site continue to get better. Our traffic on the site continues to be very, very good. So we're very encouraged about the fact that the guests still love coming to the website. What we were disappointing in was the experience once they got there, and so our conversion rates were not to where they had been in the past, and that aspect is what we've seen an improvement on over the last 6 or 8 weeks.

Douglas A. Scovanner

Excluding the super important 6- or 7-week period that we all focus on for the right reasons, excluding that for a moment, we've been running pretty consistent, 4%-plus same-store sales performance since the second quarter last year, while obviously our results don't exclude that period, and so we're working diligently to address that in 2012 and beyond.

Gregory S. Melich - ISI Group Inc., Research Division

Great. If I could, you talked about commodity inflation, how you guys managed that successfully. What do you think that aided the comp by if you were to take that average ticket growth for the year? I know at the year end, you guys usually have some sort of estimate summary.

Douglas A. Scovanner

We'll end up reflecting in our 10-K that inflation contributed a very immaterial amount aggregate to the picture in 2011. Now obviously, that picture was quite different by category, with much higher rates of inflation in some categories, think of anything involving cotton and most anything you eat, with continued deflation in lots of other categories mixing out to a trivial net figure.

Gregg W. Steinhafel

I'd also add that the peak quarters were really, second half of second quarter, all of third quarter, first half of second quarter and then we started seeing that inflationary pressure abate as we cycled through December, and now we're back to more reasonable traditional levels.

Douglas A. Scovanner

Importantly, despite all of the fears 6, 9, 12 months ago, that whole picture had no impact that we can see or measure on gross margin rates.

Operator

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

Charles X. Grom - Deutsche Bank AG, Research Division

My question is on the PFresh remodels. And I'm just wondering if you take a look at the class of 2011 versus the class of 2010, I'm wondering if you could compare the performances for us?

Gregg W. Steinhafel

I would say that the performance, both of those class of stores were relatively consistent, give or take. They both met or exceeded our expectations. They were some of our larger stores in more of our denser suburban, urban trade areas. We continue to see very, very good results in year one conversion, year 2 are meeting our expectations. We're now having some stores that are just starting to cycle in year 3. As we move into year 2, we're starting to see the sales expand beyond just the Food categories into some, more of the other crossover and commodity categories. And as we move through year 2 and into 3 -- year 3, we're starting to see the increase in the discretionary categories that we had planned for over time as well. So we're on track and feel -- continue to feel really good about where we are with PFresh.

Charles X. Grom - Deutsche Bank AG, Research Division

Is that flow-through consistent with like the first batch of stores you did, like the, particularly the Philadelphia market?

Gregg W. Steinhafel

Philadelphia was a little bit of an anomaly in that when we did Philadelphia, it was primarily about Food. We did not incorporate all of the other signature elements, the broader elements of the remodel that we incorporated in subsequent cycles. So we did far more on the visual elements in the store, carpeting, apparel fixtures, the shoe area, the beauty, home. None of those were added into or part of that Philadelphia test market. So as we go back and we will add that back over time in the Philadelphia market. So it really is not a clear indication of what the comprehensive PFresh performance was all about.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And then just if I missed this, how many remodels are you doing in '12?

Gregg W. Steinhafel

In '12, the number is in the neighborhood of 230.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And then just one quick question.

Gregg W. Steinhafel

So down about 150 from last year.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And why are you decelerating the remodels?

Gregg W. Steinhafel

Well, we have a -- we started with our suburban, urban, higher volume stores. And as over time, as we completed and we fill back into those market, we just believe that this cadence is a more appropriate cadence as we go forward, as we go into our -- some of our mid and lower volume stores. And secondly, we're working on a lower cost investment on some of these. And so we're just looking at just extending out the program a little bit. And we never were really all that specific in terms how long it was going to take to complete this program. We just feel, with everything else that's going on, it's the appropriate number for 2012.

Douglas A. Scovanner

Well, at a big picture level, for heaven sakes, we've already completed 60% of the stores.

Gregg W. Steinhafel

Yes.

Douglas A. Scovanner

So 60% of our stores, excluding Super Target stores of course, that aren't relevant to this discussion. So even this year's program will convert 1/3 of the remaining stores.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And just a quick question on credit. Your bad debt provision was up almost 2x from the third quarter, just wondering why. And then, looking ahead to '12, what would you expect that allowance as a percentage of period end receivables to become a year from now?

Douglas A. Scovanner

The expense -- I'll handle the 2011 question, I'll let John take care of the 2012. The expense was up for the precise reasons we laid out in this conference call at the beginning of the quarter. We have achieved a form of equilibrium of sorts, where our write-off rates are more or less in line with our allowance rates, and that's why you saw bad debt expense and write-offs right on top of each other during the quarter. We tried diligently to communicate this as clearly as we could at the beginning of the quarter. So behind us are the days where allowance reductions will add meaningfully to our results. For the 2012 comment, John?

John Mulligan

So for 2012, we expect -- we finished 2011 at about 6.5% or so allowance rate. And for 2012, we expect the year to finish pretty much right on that. So the only meaningful change in the reserve dollars will be due to the actual reserve balances coming back. But as Doug said, we feel like we've hit just about equilibrium here on net write-offs in delinquencies.

Operator

Your next question comes from the line of Robert Carroll with UBS.

Robert W. Carroll - UBS Investment Bank, Research Division

I know you talked about some sentiment issues around REDcard, how it continues to do well, penetration is there. Are there any additional, I guess, some of the numbers you can put around that in terms of the contribution to the comp? I mean, if you're still seeing kind of the sizable uptick in new card placements coming in?

Douglas A. Scovanner

There's a little bit of a different answer, debit versus credit. And one of the curious things that you'll see in our disclosed figures is that the year-over-year growth is now, give or take, 3/4 in the debit card program and 1/4 in the credit card program that is looking at penetration increases. But by the time you blend those together, certainly, there remains a very material percentage of the sales reflected in that penetration increase that are incremental sales. Maybe that's trailing off to 1/3 given the mix, where it was once in the 40% to 50% range, but it's still a very important feature of our results.

Robert W. Carroll - UBS Investment Bank, Research Division

So I mean, if we were to do the math on that, to try and, I guess, just look at the contribution to the full quarter comp, do you guys have that number?

Gregg W. Steinhafel

We're not breaking out that specifically anymore because that is so integrated with PFresh, and it's really part of the core business sales driving tactics that we had. And because we have now gone through over 60% of our general merchandise stores, it's impossible to really break those out anymore in any meaningful way. So it's really one integrated strategy. Those are frequency driving strategies, and going forward, we're not going to be really talking about them in anything other than part of the core business driving sales programs that we have.

Operator

Your next question comes from the line of Adrianne Shapira with Goldman Sachs.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

A few questions. Gregg or I guess it's John, you mentioned that February, it sounds as if you're tracking well ahead of the 4% comp plan for the quarter. Maybe if you could give us what's driving that? Where are you seeing the strength come from, consumables versus discretionary, any color?

Kathryn A. Tesija

Yes, I can take that, Adrianne. It's really been across-the-board. We've seen, as Gregg mentioned, our discretionary businesses bounce back both in January and continuing on in February, as well as continued strength in our Grocery business, Beauty, the product areas where you've seen strength in the past. So it's really been across-the-board.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Great. And a combination of traffic and ticket, it sounds like.

Kathryn A. Tesija

Correct.

Gregg W. Steinhafel

We'll give you the full details end of next week as well, but we're really pleased with where we are at this point in time in February. But as we noted in the comments, it's one month, we don't want to get too excited or too disappointed. And we're doing a lot of things right. We have a lot of really good sales driving initiatives. We're off to a good start. We finished the year with very clean in inventory. So our stores have been reset, and they are fashion fresh forward with our color campaign. Our stores are doing an awesome job of delivering a great guest experience. We hate to use weather a little bit, but it's been milder this year compared to some of the issues we had [indiscernible].

Douglas A. Scovanner

It's okay to confess once in a while that weather's favorable. Seriously, we won't know for several months how much of the apparel strength in February is pulling forward sales that otherwise might have occurred in March or April versus a little gift that we should all expect every once in a while.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Great. And then my...

Gregg W. Steinhafel

But it's across the store. It's really solid.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Terrific. And then my other question relates to the competitive environment. Gregg, you characterized the holiday as intensely promotional. It obviously took its toll on your sales. It sounds as if we could look forward to ongoing pressure, besides Wal-Mart, obviously big changes from JCPenney. We just heard from Kohl's, some pretty significant price investment planned for their opening price point. It sounds as if you're planning a small gross margin decline for 2012. I'm wondering is that largely because of the mix shift -- ongoing mix shift that you expect. But having to think about merchandise margins in a world that continues to sound as if we're going to get increasingly competitive.

Gregg W. Steinhafel

Well, I would separate the 6 weeks out of holiday compared to the other 46-plus weeks out of the year. It is just a period in and of itself. And so everybody makes price investment and is aggressive throughout the year. We saw that throughout 2011. But it goes to such a heightened sense during the holiday, and then it typically backs down to a more normal cadence, still aggressive but still more normal. That pattern is what we have consistently seen. That's the period that we're in. All of our retail competitors make investment in price on an ongoing basis. That's really nothing new. We do the same thing. We invest billions of dollars a year in our promotional markdown and delivering great value day in and out and that's going to continue. So most of the rate decline that you were talking about going forward in 2012 is it relates to the mix issues associated with our traffic driving strategies and not any significant change in the promotional environment.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

So following on that, Gregg, does it sound as if the 3% comp for the year, we should expect it to be a bit more front-end loaded and perhaps rethink of the cadence of sales for the holiday period?

Gregg W. Steinhafel

Yes, I think that's a fair way to look at it. I think that our internal expectation is, let's really get ahead, let's really try and deliver in excess of that number. And then I think that when we get in the holiday, first of all, it's the peak sales month, and it's very difficult to repeat that same kind of sales momentum consistently in the largest month of the year. And the dynamics are such that so much is around that Thanksgiving weekend, and then it goes into a lull and then there's that big finish at the end, the last 7 or 8 days, and it's just -- we just don't think it's reasonable for us to be planning our business at the same kinds of sales trend that we've experienced up and to that. So we're going to take a more modest approach during that timeframe. We're still going to try and capture as much share as we possibly can. But we're going to continue to do like we did this year and prior years, and that's making sure that we are not just driving sales at any cost, that we are appropriately trying to gain market share profitably and being disciplined in our approach to the marketplace. And if that means slightly softer comps during that timeframe, we think that's a good trade-off to make because we are not going to get into this race to the bottom and give it away at all cost and to try and capture sales, lumping significantly below cost with the whole store on sale and things like that. That's just not our strategy. We don't think it's healthy over the long term, and so we are really trying to find that right balance between driving sales and maintaining the current high level, strong levels of profitability in our EBITDA and EBIT margin rates.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Great. And then my last question relates to the management team. It sounds as if we're all looking forward to meeting John, I guess, next week. But any updates in terms of the marketing role, when we can expect that role to be filled?

Gregg W. Steinhafel

No, there's really nothing that I can really share. This is in progress, and we're being very disciplined and thorough in our approach, as you would expect us to. And as soon as I have something or we have something to share, we'll communicate that broadly to everybody.

Operator

Your next question comes from the line of Colin McGranahan with Bernstein.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

First question on gross margin. Just in the fourth quarter, can you help us out a little bit on -- it sounded like the underlying gross margin x the impacts from PFresh and REDcard was up. Obviously, it was a disciplined promotional stance. But can you give us any quantification of what the underlying margins did and how you were looking at the impact from the collective RED-Fresh initiatives?

Douglas A. Scovanner

The measured impact as best we can measure them is that PFresh and 5% Rewards combined drove a gross margin rate decline a little higher, slightly higher than the aggregate reported results. And excluding those impacts, there was a slight amount of mix deterioration and a larger benefit from rate improvement within categories. But by any measure, the lion's share of our gross margin rate change on a net basis was driven by the impacts of those strategies.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Okay, that's helpful. And then a couple of questions for Kathy. Firstly, I guess in the near term, with the improvement in sales momentum you've seen since the holidays, is there anything changing in the characterization in terms of your price points, good, better, best? It sounds like your best -- your greatest share gain was from your best customers. Are you seeing any improvement as you can tell in terms of merchandise assortment or guest improvement?

Kathryn A. Tesija

In the discretionary side of our business, we have seen some improvement in our better and best price points. And so you'll see that in fashion with some of our more fashionable collections as well as the must-have items. You'll also see it in Home in some of our better brands, Fieldcrest, for example, Smith & Hawken, which I've talked about before, C9 and Activewear. So we are definitely starting to see some movement, and that's one of our key objectives for 2012. We've had very strong results throughout the recession in our good price point and better, but we'd like to see increasing strength in better and best, and we have started to see that movement.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Okay, that's helpful. And then longer term, the consumer electronics category and the larger media category has obviously been a significant and persistent drag. Can you just talk about any strategies you have that you think might be able to alleviate that, and obviously, there's some structural secular issues at work there.

Kathryn A. Tesija

Yes, there is a lot going on in those industries, and in particular, some that we are very strong on given our family orientation, like video games for example. So you have seen us over the past year make some changes there with space, adding in cellphones, expanding that section, going deeper into Apple product, which performs very well with our guests, with the iPods and iPad, iPhone, et cetera. And you also saw us work through a reinvention on the entertainment side, decreasing some of the space, devoting more to children, which is our strength, and we've seen some improved results in both of those areas because of that. But clearly, as you stated, there's issues across the industry. And we need to continue to work on staying ahead of that as best we can, going after the things that are working and in entertainment working on exclusives and products that our guests -- really resonate with our guests. Like for example, you saw our exclusive with Adele, and that came out a year ago with her 21 album and we were able to re-release it with the award ceremony this year and have had terrific results. So I think we need to continue to stay on that and do more of it.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Okay, and then finally and then I'll get off here. Just in the Home category, would you expect to comp positive in 2012 in that category?

Kathryn A. Tesija

Well, I don't know that we're prepared to state a number for Home, but it has been improving and I would say at least flat, if not up, here coming in the next year. We've made a lot of improvements already, and we've seen, as I said earlier, some stronger results in our Housewares business as well as our seasonal business, so we're very pleased with that and we're going to continue to capitalize on that, particularly with the strength in the kitchen side of the business with our PFresh remodels. And what we're working on now is getting the more discretionary side, domestic, .com up to better numbers. And part of that, as I talked about a minute ago, is increasing the value in our home brand which are better price points and continuing the success we see [ph] in our best price points.

Operator

Your next question comes from the line of Wayne Hood with BMO Capital.

Wayne L. Hood - BMO Capital Markets U.S.

Doug, I just had a question for you on credit and then Kathy, I have a follow-up question around the fourth quarter. Doug, some of the discussions we have with some of the potential buyers of Credit Card portfolios were talking about the changes in the regs would potentially require a retail partner to have some type of liability in the future in the event a retail portfolio cards became unprofitable. And so my question is, are you hearing that and was that a stumbling block in trying to get a deal done? And if so, how you get past that? Or can you give us some idea of why you think maybe later this year, you can get a deal done? And then again, I've got a question for Kathy.

Douglas A. Scovanner

That really isn't driven by the regs. It's certainly a fact that some other retailers have structured deals in a way that compensates them higher in the short run in exchange for incurring a potentially meaningful amount of risk in the event that portfolios melt down. That isn't driven by the regs, it's driven by deal structures willingly entered into by others. So we could do one of those deals, we could do some other form of deal, but that's not really a factor one way or the other in getting a deal done.

Wayne L. Hood - BMO Capital Markets U.S.

Okay, so you -- that's ultimate for a potential liability wouldn't prevent you from getting a deal done. Is that the way I should take what you're saying?

Douglas A. Scovanner

What you should take away I'm saying is, we have the option of structuring a deal either way. And some retailers have structured deals in one fashion and some have structured it in the other fashion, obviously in exchange for incurring a downside risk. I would assume that the retailers who have that risk are getting a much larger ongoing payment stream. It's a form of insurance, if you will. But it has nothing to do with whether or not we can get a deal done. We could easily structure a deal either way if we elected to.

Wayne L. Hood - BMO Capital Markets U.S.

Okay. Kathy, I was just -- as you think about December or that 6-week period there, is there an opportunity for you to move more of the new launches into that period, particularly in the early part of December so that you're not just competing on price, more about innovation and maybe more full price selling around those new launches as opposed to where they've lined up in the past?

Kathryn A. Tesija

Wayne, we're looking at that, but I would tell you a little bit more broadly, we're looking at just gifting in general and how we've gone to market, particularly in Home but somewhat in apparel. So I don't -- I can't tell you at this point what our design partnerships will look like for the back half, but we are definitely considering appropriate things that our guests would be interested in for that December timeframe where we think we can pick up some more business in the gift-giving categories.