Good morning, and welcome to our 2012 First Quarter Earnings Conference Call. On the line with me today are Kathy Tesija, Executive Vice President, Merchandising; and John Mulligan, Executive Vice President and Chief Financial Officer.

This morning, I'll provide a high-level summary of our first quarter results and strategic priorities for the year. Then Kathy will discuss category results, guest insights and upcoming initiatives. And finally, John will provide more detail on our first quarter financial performance, along with our outlook for second 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 to our comments today 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 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 -- to our GAAP results is included in this morning's press release, which is posted on our Investor Relations website.

We're very pleased with Target's first quarter financial performance. Adjusted earnings per share, a measure reflecting the performance of our U.S. businesses, increased 11.5% from a year ago as outstanding performance in our U.S. Retail segment more than offset a year-over-year decline in credit card segment profitability. GAAP earnings per share, which includes the impact of our Canadian segment investments and unique tax items, increased 5% over first quarter 2011.

In the U.S. Retail segment, our comparable store sales increase of 5.3% is the largest we've experienced since the third quarter of 2005 and more than 1 percentage point stronger than we expected going into the quarter. As we noted in our monthly sales releases, unusually warm weather, combined with an earlier Easter, drove stronger-than-expected traffic and sales in February and March. Once guests were in our stores, they responded quite positively to our spring merchandise assortments. Sales trends accelerated across-the-board but were particularly strong in Apparel due to the seasonal sensitivity to that -- of that category.

We maintained a very healthy operating margin in our U.S. Retail segment as gross margin investments in our store remodel and 5% Rewards growth strategies were more than offset by underlying strength in category gross margins, combined with meaningful expense leverage. As we've indicated before, expense discipline has played a key role in Target's financial success as we've navigated the great recession and ongoing recovery. We are committed to maintaining that discipline, even when the economy and the consumer recover more fully.

Our credit card portfolio continues to generate outstanding profitability, in addition to the value it creates by serving as the platform for our 5% Rewards program. The credit card team has done a terrific job managing this portfolio, which has emerged from the recession lean and healthier than ever.

5% Rewards continues to exceed our expectations. Penetration of sales on our credit and debit cards continues to grow substantially, with households shopping and spending more when they add one of these cards to their wallet. And in Kansas City, which launched this program a year earlier than the rest of the country, we continue to see growth without any sign of a slowdown, even though the program is well into its third year in that market. This loyalty program drives a meaningful increase in guest engagement, regardless of the starting point. In other words, all guests, from our least engaged to our most valuable guests, become much more valuable when they decide to sign up for this program.

I want to thank everyone on the Target team around the world, more than 365,000 strong, for driving superior performance we're reporting today. I'm inspired by your accomplishments and your passionate commitment to our guests and the Target brand.

We continue to invest thoughtfully in our stores, adding locations when we find opportunities that meet our strategic and financial criteria. In addition, we're transforming our existing store base to reflect our latest thinking in terms of layout, presentation and overall store experience. In the first quarter, we opened 3 new stores, adding 1 location net of closures for rebuild and relocation. We also completed more than 100 remodels, resulting in nearly 1,000 general merchandise stores that we've either opened or remodeled in the last 4 years. This means that even though we've reduced new store growth in response to the recession and resulting slowdown in commercial development, our store base is much fresher than before the recession began. Guests in these stores respond to the appealing environment by spending more at Target as we capture more of their shopping trips. While the most visible change to these stores is the addition of a broader food assortment, including an edited assortment of perishable items, guests also respond to enhanced navigation, compelling visual elements and our latest thinking in Beauty, Shoes, Home, Apparel and baby.

As we look ahead to the remainder of 2012, we remain confident in our strategy and operational plan but cautious about the macro environment. We believe the current economic recovery will continue to be slow and uneven. As a result, we believe it's prudent to plan our business accordingly, knowing that we can quickly respond, as we did in the first quarter, when an unexpected surge in traffic and sales occurs.

Outside of the U.S., we're pleased with our progress in preparation for the launch of Canadian Target stores in spring 2013. We are actively building our talented team in Canada, and we're on track in the development of the IT and distribution infrastructures that will service those stores. In the second quarter, Zellers will begin vacating the first set of locations that we expect to open our Target stores next year, allowing us time to completely renovate these sites to accommodate our unique merchandise assortments and operating model. As a reminder, we expect to open 125 to 135 Target stores in Canada by 2014 as a result of our real estate transaction with Zellers.

We also continue to devote meaningful resources to our online capabilities and multichannel efforts. In the near term, we're focused on strengthening our current web platform to enhance the guest experience. Over time, our vision is to create a unique seamless integration of our stores, online mobile platforms and social media, providing our guests the same great experience regardless of the channel they choose.

We continue to invest capital and resources in strategies that drive both our near-term and long-term performance. In merchandising, we're committed to continuous innovation, finding new ways to surprise and delight our guests. We've been pleased with the initial results from the first flight of The Shops at Target, our most recent effort to deliver great design and differentiated merchandise at prices our guests can afford.

We're anticipating the opening of our first 3 CityTarget stores in July, with locations in LA, Chicago and Seattle. These stores will provide the Target experience to guests in dense urban neighborhoods that can't accommodate our larger formats. These stores will offer a curated assortment across all of our merchandise categories designed to serve the unique wants and needs of guests in these markets.

In addition, we're continuing to invest in technology [indiscernible] spaces welcoming and easy-to-shop and will leverage our learnings across the chain. We plan to open another 2 CityTarget stores in October and will study results in these 5 pilot locations to inform future store growth and merchandising decisions.

We'll continue to develop and implement strategies like our 5% Rewards, REDcard Free Shipping and Pharmacy Rewards programs that increase loyalty and drive incremental sales by offering our guests convenience and additional savings beyond our everyday low prices. We'll invest in our remodel program, bringing the total number of stores with our expanded food assortment and merchandise reinvestments to more than 1,100 across the country. This number represents about 75% of the general merchandise stores in the chain and nearly all of the eligible stores in major markets.

And we remain committed to selling our credit card receivables portfolio. Our goal is to establish a long-term relationship with the right partner on the right terms, removing the receivable assets from our balance sheet. The right transaction will allow us to pursue our strategic objectives while sharing in the outstanding profitability we believe this portfolio will continue to generate over time.

Many of you tell me that our vision for Target's future and the strategic initiatives to support that vision are extremely ambitious. I agree. But the experience and commitment of our talented team and our track record of success give me confidence in our continued ability to innovate, take thoughtful risks and reinvent ourselves in an environment that's changing more rapidly than ever. What remains constant is our focus on our guests and our goal to serve them better, saving them time and money in a way that deepens their relationship with Target. We believe that this disciplined focus on our guests will lead us to develop and implement winning strategies for the future, just like we benefit today from strategies we began to develop years ago.

Finally, before I turn it over to Kathy, I want to take a moment to comment on the newest addition to our executive team, Chief Marketing Officer Jeff Jones. As you know, we conducted a lengthy and exhausted search to fill this key position, and I couldn't be happier that Jeff has joined our team. He has extensive experience and a proven record of success developing teams and building brands across traditional, digital and social media spaces. I'm confident that Jeff will build on Target's long-term success in marketing. And I'm excited to work with him to elevate our iconic brand to an even higher level.

Now Kathy will provide more detail on first quarter results, share recent guests insights and outline initiatives for the second quarter and beyond. Kathy?

Kathryn A. Tesija

Thanks, Gregg.

Our first quarter results demonstrate the strength of our Expect More. Pay Less. brand promise. Our low prices, great store experience and broad assortment in Food and Household Essentials drive traffic regardless of the economic environment. In addition, when guests feel comfortable splurging on more discretionary items, we deliver an unbeatable combination of fashion, design and value on a unique assortment of items across Apparel, Home and Hardlines.

In the first quarter, both the pace and mix of our sales exceeded our expectations. Early warm weather and appealing spring fashions drove higher-than-expected traffic and sales, particularly in our seasonally sensitive categories. As a result, first quarter comparable store sales in Apparel grew slightly faster than the company average, the best quarterly performance in that category since 2006.

Outside apparel, sales in frequency categories like Food, Healthcare and Beauty continue to grow consistently and rapidly as guests respond to Target's unique combination of convenience and value, especially in our remodeled stores.

In Hardlines and Home, first quarter results were strongest in gifting and seasonal categories like lawn and patio, Housewares, Toys and Sporting Goods.

On our website and mobile platforms, first quarter sales increased but at a slower rate than in our stores. As Gregg described, our focus in the near term is to strengthen the website experience. And while we continue to make meaningful progress, we still have more to do. Traffic to the site remains strong, and conversion and guest satisfaction scores continue to improve. We will continue to implement improvements to create the appropriate foundation for our longer-term multichannel efforts.

Consumer research provides insight into the environment that created stronger-than-expected first quarter sales while reinforcing our cautious outlook going forward. In the first quarter, research indicated that consumers were feeling a bit more confident in their financial situations, making them somewhat more comfortable spending across all categories. However, the consumer optimism about the future reached a peak in February and began to decline in March and April. In addition, the percent of consumers planning to cut near-term spending increased in April, suggesting the possibility of shorter -- of softer growth in the near term. On the positive side, recent declines in gas prices may lead to improvements in sentiment and stronger household budgets.

Against this backdrop of uncertainty, we're planning our inventory appropriately for the second quarter and later in the year. We're committed to achieving our sales plan and maintaining solid in-stock levels while reserving flexibility to adjust to short-term changes in traffic and sales. As we demonstrated this quarter, our base inventory can support meaningful upside to our near-term sales plan.

For the second quarter and beyond, we've designed merchandising and marketing programs to surprise and inspire our guests and support both sides of our Expect More. Pay Less. brand promise. This year, we want to show our guests that we're the one-stop shop for summer fun. We'll highlight an assortment of bright colors and fun patterns splashed across tabletop items, backyard essentials, picnic supplies and beach basics designed to make summer entertaining, fun, affordable and effortless. And we've created in-store marketing elements, visuals of oversized sunglasses or flip-flops hanging from the ceiling, that will be impossible to miss.

For more than a decade, Target's design partnerships have played a key role in differentiating our stores and merchandise assortments, offering our guests something they can't find anywhere else and making the previously inaccessible accessible for all. The Shops at Target is the latest innovation in our partnership strategy. Rather than working with a usual [ph] designer, this program highlights items from small, distinctive specialty stores, hidden gems which up until now have only been accessible to those lucky enough to live nearby. Last week, we launched the first flight of The Shops at Target, providing guests across the country the opportunity to see what makes these shops so special, and the response has been quite favorable. With surprising finds across a variety of departments, the shops offer unique products in Beauty, Apparel, pets, Home and Candy. Our second flight of the shops will set in early September with products in men's apparel, women's apparel and Home.

Beyond this new strategy, we continue to work with designers and brands to create Target exclusive collections. With the help of Todd Oldham, Target is letting kids be kids with our new and exclusive collection, Kid Made Modern. This collection of art supplies and activity kits gives kids and parents fun yet affordable creative design tools to inspire through art. Look for Kid Made Modern in stores and online next week.

In music, we've partnered with Grammy winner Norah Jones to bring guests a deluxe edition of her new album, Little Broken Hearts. The Target deluxe edition, which features 3 bonus tracks, is available now. We've also partnered with 19-time Grammy award-winning music producer Emilio Estefan, who will work with Target to curate a special selection of his favorite music, movies and books, entitled Emilio Estefan's Picks. The selections will be featured online and in the entertainment department of select Target stores beginning June 6. Additionally, Estefan will leverage his strong relationships and pulse on the industry to help develop Target-exclusive partnerships with Latin music artists.

In swimwear, we continue to build on our industry-leading market share position by growing in our owned and exclusive brands. This spring, we're very pleased with early results from the rollout of ASSETS by the makers of SPANX, featuring one-piece suits and fashion tankinis. We've also seen strong increases in young contemporary swimwear with signature print tankinis from Converse. And in Mossimo Black, we've seen -- we have created a fashion solid mix-and-match destination.

In July, we'll roll out a new series of fits in men's apparel in both Merona and Mossimo to better match our guests' more modern tastes. We're also reorganizing the floor pad by types of apparel rather than brand to make it easier for our guests to find what they're looking for.

Looking beyond the second quarter, we're very excited about our recently announced plans to rebrand our Target Home brand as Threshold, beginning this fall. Target Home is already our largest owned brand, but we saw an opportunity to better clarify its positioning and point of view, so we undertook the biggest rebranding effort in our history. Everything was on the table in this effort: product, quality, packaging and positioning within our brand portfolio. We engaged in a similar effort to redefine our Room Essentials brand a couple of years ago, and we've been very pleased with the results. We believe this is an opportune time to rebrand Target Home as the economy continues to improve and more guests are beginning to feel comfortable trading up from good to better brands.

We'll debut Threshold with an assortment of entertaining essentials, accents and decorative accessories and plan to extend the brand across our entire home assortment in 2013. We'll have more information to share on this brand launch in future conference calls.

I feel very good about the health of our business, our plans going forward and the ability of our team to execute on those plans. Across our business, we're committed to achieving the appropriate balance between managing risk and seizing opportunity, between wants and needs and ultimately Expect More. Pay Less. Instead of choosing only one or the other, we've proven successful over time by choosing both.

Now John will share his insights on our first quarter performance and outlook going forward. John?

John J. Mulligan

Thanks, Kathy. This morning, I'll provide more detail on the drivers of our first quarter financial performance, and I'll wrap up by providing our current outlook for the second quarter and our 2012 fiscal year.

As you know, last year, we began reporting adjusted earnings per share because it allows all of us to measure the performance of our U.S. businesses, excluding the impact of our Canadian segment investments and unique or onetime items. In the first quarter, adjusted EPS grew 11.5% from $0.99 in 2011 to $1.11 this year. This performance was better than we forecasted going into the quarter and just above the updated range we provided on our March sales release. Performance in both our U.S. segments was outstanding and ahead of our plan for the quarter.

On a GAAP basis, we earned $1.04 per share, $0.07 lower than adjusted EPS, reflecting Canadian segment expenses worth $0.08 a share, offset by a $0.01 benefit from the favorable resolution of income tax matters.

Our first quarter comparable store sales increase of 5.3% was well above our planned increase of about 4%. These unexpectedly strong sales drove outstanding profitability when compared with both our plan and last year. As Kathy mentioned, consumer sentiment turned somewhat more positive early in the quarter, and we certainly experienced the traffic and sales impact of early warm weather combined with earlier Easter timing.

On our sales, we earned a very healthy EBITDA margin rate of 10.3%, favorable to last year and our plan. This performance reflected a modest decline in our gross margin rate as the impact of our remodel program and 5% Rewards was partially offset by favorable sales mix unrelated to our remodel program, combined with gross margin rate improvements within categories.

On the SG&A expense line, we gained leverage of about 0.5 percentage point, driven by continued productivity improvement in our stores and disciplined expense control across the company. As expected, depreciation and amortization expenses were essentially flat to last year, providing an additional benefit to our retail EBIT margin rate.

As Gregg mentioned, our 5% Rewards program is exceeding our expectations in terms of penetration and incremental sales. In the first quarter, percent of sales on our credit and debit cards grew 4 full percentage points over last year to 11.6%. Notably, most of this incremental penetration is coming from our debit card, which many of our guests are choosing because they don't want another credit card in their wallet. Either choice is fine with us because, regardless of whether they choose our debit or credit card, guests on average increase their spending with us more than 50% once they get the card.

The Kansas City market, where we implemented this program a year ahead of the rest of the country, has so far proven to be an incredibly accurate roadmap for our national rollout in every aspect. And in that market, we continue to see year-over-year penetration increases of more than 3 percentage points, giving us a high degree of confidence that this program will continue to contribute to our sales growth well into the future.

In our U.S. Credit Card segment, we continue to earn an outstanding yield on a portfolio that is shrinking as planned. Yield for the quarter was 9.1% above LIBOR or $137 million, down from $209 million a year ago. This year-over-year decline was the result of cycling a very large reserve reduction in first quarter 2011, along with the impact of a smaller asset base.

During the quarter, we renegotiated the private securitization conduit, which continues to fund a portion of the credit card portfolio, increasing its size by $500 million to $1.5 billion and extending its maturity until midyear 2013. We have the right to retire this financing early at par, flexibility that will be beneficial as we continue to pursue our goal of a credit card receivable sale.

As expected, our Canadian segment recorded first quarter SG&A expense of $34 million, up from $20 million in the prior quarter, as we continue to build our Canadian team and record expenses related to IT investments. In addition, we recorded $21 million in depreciation and amortization within the segment and $20 million of interest expense on capitalized Canadian leases outside the segment, consistent with fourth quarter results.

Even while we continue to invest in our U.S. and Canadian segments, we have the capacity within our debt ratings to return a meaningful amount of cash to our shareholders. In the first quarter, we invested about $600 million to retire approximately 10.5 million shares, fitting a very strong start on our annual plan. In addition, we paid dividends of just over $200 million, meaning we returned well over 100% of our first quarter net earnings to shareholders.

Now let's turn to our outlook for the second quarter and full year. Even though we experienced upside in the first quarter, our view of sales for the remainder of the year remains largely the same as before, given the current environment. For the second quarter, that means we're planning comparable store sales increase of around 3%. And for the year, we believe our prior guidance of 3% or a little more remains appropriate, and we're happy to have a very strong start on that plan through one quarter.

For what it's worth, so far in May, our sales have been running essentially on-plan and consistent with our prior guidance of a low- to mid-single-digit increase. And we remain comfortable with our outlook for the quarter and the year.

We continue to expect U.S. Retail segment EBITDA margins in line with last year's performance, with continued modest gross margin rate declines generally offset by leverage on SG&A expenses. Of course, year-over-year comparisons on these metrics in any one quarter will likely exhibit more noise than we'll experience for the year in total. As of today, we expect our Q2 EBITDA margin rate will be in line with last year's performance.

In the U.S. Credit Card segment, we expect continued declines in the asset base, although the rate of decline will likely moderate throughout the year. We expect portfolio yield to remain quite healthy, but we'll continue to experience year-over-year declines in spread to LIBOR as we cycle large reserve reductions in last year's second and third quarters. On a rate basis, we continue to expect the portfolio to earn a spread to LIBOR of 700 basis points or more for the year.

Our plans for the Canadian segment remain right on track, and we look forward to opening our first Canadian Target stores in a little less than a year. This year, SG&A expenses in this segment will continue to build as we continue adding to the Canadian team and we begin to incur dead rent during the 6- and 9-month period required to convert former Zellers sites into brand-new Target stores.

So putting this all together. We expect to earn second quarter adjusted EPS of $1.04 to $1.14 and GAAP EPS of $0.94 to $1.04, with the $0.10 difference in those ranges reflecting our forecast of expenses related to our Canadian segment. For the full year, we've raised our outlook by $0.05 and expect adjusted EPS of $4.60 to $4.80 and GAAP EPS of $4.10 to $4.30. We continue to forecast a $0.50 difference between those ranges, reflecting our outlook for full year expenses related to our Canadian segment.

Altogether, this performance in 2012 will keep us right on track to achieve our long-range plan for $100 billion or more in sales and $8 or more in earnings per share by 2017.

Now Gregg has a few brief closing remarks.

Gregg W. Steinhafel

We're very pleased with our first quarter 2012 financial performance, confident in our strategy, and we're planning our business appropriately for the second quarter and beyond.

That concludes today's prepared remarks. Now Kathy, 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 Colin McGranahan with Bernstein.

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

[indiscernible] rewards card, just shy of 12% penetration. It sounds like Kansas City is running 15%, and you’re continuing to see pretty steady increases there. So a couple of questions. Firstly, where do you think the ultimate penetration goes? Would you expect the total company penetration to be up to the 15% range this year, given Kansas City? And is Kansas City still generating the 50%-plus lift of incremental spend, which would suggest the comp lift to the total business is running at about 150 basis points?

John J. Mulligan

So first on penetration. Ultimately, where do we expect penetration to go this year? I think you're probably in the right range for the company by Q4, not on average for the year, obviously, but probably in November and then obviously in December, it comes down a little bit with the sales surge. But in November, that's probably about the right range. And in Kansas City, you're right. We continue to see fantastic performance, penetration growing 300 basis points a year. And the lift there, just like it is in the rest of the country, continues to be in excess of 50% for both credit and the debit product. The only comment I'd make is -- other comment I'd make is the lift in penetration now, driven about 2:1 by debit rather than credit, and that's a reversal from what we saw about a year ago at this time.

Gregg W. Steinhafel

Yes, I would just add that over the long term we really don't know -- we're -- how high, high is. We continue to be excited about the performance in Kansas City in the chain, and we believe that there is still a long runway with the growth of this penetration over time. We're going to continue to invest in it. And clearly, guests, really, the ones that get it, love it. And our challenge is continue to get more guests to understand the immediate and powerful benefits that both of these cards provide for them.

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

That's very helpful. And then just a quick follow-up for Kathy. I know you do a pretty thorough job looking at pricing on a regular basis. Any comments on what you're seeing in the environment, especially in the more consumables area?

Kathryn A. Tesija

I would say that the environment's pretty rational right now. It's always very competitive. And as we head into the summer and getting closer to Back-to-School, I'm sure that, that will heat up, as it does every year. But I would say right now it's pretty rational.

Operator

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

Daniel T. Binder - Jefferies & Company, Inc., Research Division

I had 2 questions, first on the inventory position. Obviously, you had better sales in Q1. I'm assuming maybe that's a little bit why the inventory's down slightly year-over-year. I just wanted to get your thoughts on your ability to flex in Q2. Is there any limiting factors based on your inventory position today? And then secondly, if you could share any web metrics with us that outline some of the progress you've made.

Gregg W. Steinhafel

I'll take the first one on the inventory. Our inventory remains in great shape. We have a large base inventory that we can sell into, so we don't believe there's any real -- or any meaningful limitations in our ability to perform in second quarter or even exceed the sales plan that we've laid out for you today.

Kathryn A. Tesija

And the second one, on web metrics. We're very focused on our overall site performance, watching speed on all parts of the site, all pages, as well as our ability to improve search and order fulfillment. And so I'll tell you we've -- we're investing meaningful resources in our multichannel efforts. We're very committed to making improvements. We have seen those metrics improve meaningfully so far this spring. We still have a lot of releases yet to come this spring and summer, and we think that, that will continue to help these metrics improve. So a big focus for us, and you'll see us continue to talk about it as we go throughout the year.

Operator

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

Deborah L. Weinswig - Citigroup Inc, Research Division

In terms of the SG&A performance in the quarter, can you just provide a little bit more color in terms of the improvement there on the retail side?

John J. Mulligan

Yes, Deb. I think, first of all, expense has been, like Gregg mentioned, a big part of our performance over the past several years and again this quarter, led by the stores, significant productivity increases in the stores as they continue to deliver great guest experience. I think, on top of that, we saw great expense performance really across the entire company, very disciplined expense growth in all aspects of our business. And the final comment I'd make is, when we see sales surge like this, our variable expenses grow a little bit, don't ramp up as quickly as we see sales ramp up, so we get some benefit from that. You see that on the downside too when sales decelerate quickly. It takes us a little while to get our variable expenses back in line. But overall, really great expense control in the quarter.

Deborah L. Weinswig - Citigroup Inc, Research Division

Okay. And then can you talk about the improvement in mix and also what you're seeing with regards to private label?

Kathryn A. Tesija

Well, certainly, our Apparel sales this spring helped our mix quite a bit, but I would say owned brands overall have been strong, really, across-the-board. Our consumables and commodity categories, as you know, continue to be very strong. All of our Apparel owned brands have been performing quite well. And in Home, we've seen good results in Room Essentials, which we've talked about before, but also Smith & Hawken and some of our better brands.

Gregg W. Steinhafel

We now have 10 owned brands or signature national brands that are -- that do over $1 billion in retail. We continue to invest in our owned brands. We treat them as national brands. We position them as such. And they're a key part of our strategy. So we're -- you're going to see us continue to focus on these very important parts of our merchandising strategy, including, as Kathy mentioned, the relabeling or the rebranding of our Home brand into Threshold later this fall and as we transition into spring and summer of 2013.

Operator

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

Charles X. Grom - Deutsche Bank AG, Research Division

Just, John, I was wondering if we could dig into the gross profit margin line a little bit more, if you could kind of put into buckets the mix impact, the impact from 5%, the rate benefits. And then I guess kind of looking ahead, what should we think about for the balance of the year?

John J. Mulligan

Yes, I think, in Q1, I would tell you that more than all of the rate declines, as we said in the comments, came from 5% Rewards and PFresh. And we saw a significant improvement in mix, as Kathy just spoke about, and a little bit of rate good news across all the categories rounded out the balance of that. I think, as we look forward, we would expect to see similar declines driven by both 5% Rewards and PFresh through Q2, Q3 and the year and perhaps a little bit of good news across the categories. We don't plan for mix improvement. That was kind of a bonus this quarter with the good apparel mix. But we'll see some rate improvement across the categories as we go forward, as well.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay, great. And then after multiple quarters here of sub-1% traffic, you guys enjoyed a nice uptick here in the first quarter. Why do you think it got better for you guys? And do you think it's sustainable?

Gregg W. Steinhafel

Well, as we said in the -- the strong early weather was certainly a portion, but overall, I would just tell you that Target's on its game. We're delivering great value, great overall experience. Our merchandising content is fantastic, it's colorful and bright season. Our stores are delivering great service. We're just doing a lot of things very well in our stores right now, and I think the benefit of that is continued market share gains across all categories and guests that really love the shopping experience at Target.

And that's really what we delivered in the first quarter, and that's why I think the traffic levels were up in that 2% range.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay, great. And then one last one for John. Just the credit metrics, the monthly ones that you guys report, delinquencies have come in much better here over the past few months. Can you hold our hand a little bit on how we should model the allowance line and bad debt as we cruise through the rest of the year?

John J. Mulligan

Sure. I think, on delinquencies, a lot of what you saw here in Q1 was really seasonal. I think that's been hard to deduce over the past several years as we kind of climbed up and then have come down. But a lot of that improvement is seasonal. Having said that, it was still a little bit better than we would've expected going into the year. I think our expectations are we'll continue to see year-over-year improvement in delinquencies as we go forward here through Q2 and then probably leveling off. Q2 last year was when we really started coming back. The delinquencies in our bad debt expense versus write-offs started to level off. So you'll see that level off getting into Q3 and Q4. I think, on the reserve, right now, we're at about 6.6% of assets, and that's about the range, 6.5%, that we'd intend to stay at for the year. I think if you look at our -- the reserve release in Q1, $35 million, 80% of that was really tied to volume of the asset base coming down, the last 20%, the last $7 million or $8 million, tied to delinquencies. So a little bit of good room in reserve if delinquencies continue, but I don't think anything significant.

Operator

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

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

I have 2 questions. First on the comp. The plan you guys have, the 3%, how much of that shift from the 5.3% we just did down to 3% would you say would be traffic versus ticket? And specifically in ticket, that ASP per unit, that actually had a nice pick-up to 2.6%.

John J. Mulligan

Greg, that's hard to say. We don't forecast at that level of specificity, traffic versus ticket. What I would tell you -- as you know, if you step back and look at what we talked about at the beginning of the year, we said -- or 90 days ago, we said 3% or a little bit more and 4% for the quarter. Obviously, Q1 was faster than that, but given that we had a 4% in Q1, the other 3 quarters were bound to be lower, given what our thought was on the year. And that's really what you see here. So I think the 3% for our quarter is -- for Q2 is right on our thinking when we went into the year.

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

So maybe asked a different way, that 2.6% year-over-year, we were seeing Food or Home CPI decelerate, is it your working assumption that, that will -- that could start to take that number, the 2.6%, that, that would also slow into the second quarter? It wouldn't just be traffic, in other words, but...

John J. Mulligan

Yes, it's possible, but that would be a relatively small impact relative to what's -- all the other variables that are driving our sales at any given time.

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

Okay. And then second is on CapEx. Can you just update us on what the budget is for this year and sort of where that peaks as we're doing Canada and when it comes down over the next couple of years?

John J. Mulligan

Yes. I think -- sure. This year, we're -- we remain at about $3.3 billion in total: $2.5 billion in the U.S. and $800 million in Canada. We haven't released guidance going out. But I would tell you, for the U.S., that 2.5% range could be plus or minus. Something in between $2 billion and $3 billion is the right range for us to think about in the U.S. Canada, we expect to peak next year, probably somewhere over $1 billion as we get through all the remodel cycles, just given the number of stores we're doing. And we’ve said $10 million to $11 million per store, so somewhere over $1 billion next year, and then Canada easing back significantly post that.

Operator

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

Robert W. Carroll - UBS Investment Bank, Research Division

One quick question -- or actually, 2 -- in 2 parts going to REDcard. I was wondering, coming out of Q4, and obviously, there's a little bit more noise around the REDcard contribution during Q4 and the holidays, but I think there've been a comment where debit had been lagging a little bit in terms of the initial lift versus what you -- had been seen from credit. So that 50%

blended number that you're talking about now, is there any sort of -- I guess, how big is the divergence between those? Or has it kind of normalized where the 2 have come back together during Q1?

John J. Mulligan

Yes, I think what we're seeing now -- well, first, I -- debit has started to grow significantly faster. And as that has happened, we've seen both debit and credit are within noise of each other, above 50% lifts. So both of them above 50%, and the average is right around there as well.

Robert W. Carroll - UBS Investment Bank, Research Division

Okay. And then, I guess, now that we have a little bit more data on there, I mean, how does that customer season? And I mean, if the -- is that the year one lift where you're seeing that 50% for new customers? And I mean, if so, when you start looking at year 2, I mean, do they continue to outperform the broader corporate average?

John J. Mulligan

Yes, we see that year one lift increase in total spend, and then they stay at that level of purchasing with us. They stay a very, very engaged guest. And I think that's kind of the point here, is we take a guest, and as Gregg mentioned, regardless of where they were prior to getting a REDcard, we get a sales lift on average of 50%, and they become just a much, much more engaged guest, more trips. And all of that remains in year 2. Obviously, we're just starting to get in here in year 3, but we see similar behavior there as well.

Gregg W. Steinhafel

Yes, well, that's one of the things we think is really exciting about the credit and debit products, is the fact that, whether you're a convenience user, you're least engaged, you're visiting us only seasonally or you're one of our VIPs, this card is meaningful -- these cards are meaningful for you, and you're moving up the value chain. So people that are coming very often but spending very little, they love this card. Our best guests, they love these cards -- these products too. So it's exciting that virtually all of our guest demographics understand and realize the power and the value and the benefits of our credit and debit REDcard Rewards program and visit us more often and spend more on the card. So it's really sticky, and it's got -- it's a great loyalty program.

Operator

Your next question comes from the line of Mark Wiltamuth with Morgan Stanley.

Mark Wiltamuth - Morgan Stanley, Research Division

A question for Kathy. On your survey where you found that consumers kind of peaked on their confidence in February, and then we saw that drop off into March and April, what factors were they citing? Maybe give us some insights on where the consumer's head is right now.

Kathryn A. Tesija

I think the point is just that their confidence peaked in February, but as they were looking forward, and I'm -- gas prices are a part of that and just their budget overall. They were getting a bit more cautious, which is why I said, as we look forward, we are remaining liquid and making sure that our inventories stay in line so that we can adjust, whether that confidence goes back up, like it did in the first quarter. And you can see that even on our base inventory, we can outsell our sales performance by a considerable amount. But if it doesn't and their confidence goes down, we'll be able to keep our inventories in-line and maintain our profitability. So I think it's a combination of things that are just happening in the marketplace that make them more or less nervous at any given point in time.

Mark Wiltamuth - Morgan Stanley, Research Division

Have you looked back in time? Did you find that those indexes are more tied to unemployment trends? Or is it just gas prices and more near-term jitters?

Kathryn A. Tesija

I think it's all of those things combined, but certainly, the ones that take money out of their wallet today have a meaningful impact to what they're able to spend on other products. So gas would be one of those.

Mark Wiltamuth - Morgan Stanley, Research Division

Okay. And for John, on the credit card segment, first quarter was probably your toughest compare in terms of lapping the largest reserve release. Should we expect that decline in the credit card EBIT to kind of decelerate, moving forward?

John J. Mulligan

Yes, I think that's right, although we still have a very large reserve release of $85 million last year in Q2 and somewhere around $50 million -- $40 million to $50 million, in Q3, so still very large things to annualize against.

But your trend is right. The year-over-year performance will improve as we go through the year.

Mark Wiltamuth - Morgan Stanley, Research Division

Okay, thank you, and we'll be watching for Canada.

John J. Mulligan

Great.

Gregg W. Steinhafel

Sounds good. And we're excited.

Operator

Your next question comes from the line of Christopher Horvers with JPMorgan.

Christopher Horvers - JP Morgan Chase & Co, Research Division

Is there a way to think about the weather pull-forward? It's a great debate out there amongst investors. Is it something that is isolated to an April time frame? Or do you think that some of that happens in May as well?

Gregg W. Steinhafel

Well, nobody really knows. I think we're all sitting around, trying to figure out how much business was pulled forward, how many weeks did that go post Easter and when we're going to see a more normalized time frame. And I think we're basically there now. I think there's -- I think there were a couple of weeks maybe that bled into May a little bit. But right now, I think that it's safe to assume that the -- that any weather-related factors are essentially behind us.

Christopher Horvers - JP Morgan Chase & Co, Research Division

And then as you think about x that weather shift, do you think you had run, let's say, a 4-ish type comp x the holiday season? Do you think that shifted higher as a result of some of the improvement in macro and merchandising perhaps disruption that you're seeing in some of your competitors?

John J. Mulligan

Perhaps. We ran a little bit stronger than that early in the quarter. It's really hard to say. It's hard to parse those things apart. I think, like I said, when we go back to what we were thinking 90 days ago, we thought we'd run a 4.

We ran a 5, so clearly, business was a bit better in Q1. But right now, we're operating about where we thought we'd be when we talked to you guys 90 days ago.

Christopher Horvers - JP Morgan Chase & Co, Research Division

Okay. And then one last question on the timing of the buyback and the flow-through. You bought back a lot of stock this quarter. Was it purchased late in the quarter, and that's why it didn't show up? And was any of it offset by share dilution?

John J. Mulligan

We don't talk much about the timing within the quarter, Chris. I think, anytime we're buying within a quarter, it's not going to have a lot of impact on that quarter just because of the nature of how we calculate average shares in that quarter. And I think our dilution -- any share dilution that occurred would be normal course. We didn't see anything outside what normally happens every year, every quarter as we go along.

Operator

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

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

I just want to follow up on what Chris was asking a little bit there. The -- if I'm right, the fiscal '12 guidance was increased about $0.05 on the earnings front, and I think, versus your initial plan, you beat by more like $0.10, $0.11 if you use the midpoint. So it doesn't sound like you've got really any estimate of a pull-forward impact. But with the sales plan not really changing over the balance of the year, so just incremental conservatism given the macro outlook or just help us why not the full flow-through of the first quarter beat?

John J. Mulligan

Yes, I think, as we thought about our annual outlook, certainly we wanted to reflect the very strong performance we had in Q1. But I think, as we sat back, we also are looking here and saying, "Well, we're through one quarter of the year. You got Q2, Q3, Q4 yet to go." And as Kathy talked about, our view of the macro environment really hasn't changed appreciably in the last 90 days. So while we enjoyed some weather pull-forward and had the right merchandise absolutely in Q1, and you see the benefit of that in our performance, we think that our current outlook is a reasonable outlook for our business given the very strong performance in Q1 but the fact that we've got a lot of wood left to chop here in the year before we get to the end.

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

That’s great. That makes sense. And then just one follow-up. Your sales comparisons do start to get a bit tougher in June and July. That's when the business really started to pick up last year. The second quarter comp plan of around 3%, is that consistent across the months? Or do you assume some sort of deceleration over the June, July time frame? Or are we getting too specific there?

John J. Mulligan

It's pretty granular, but I think we feel pretty comfortable with all the months relatively consistently as we look across Q2.

Operator

Your next question comes from the line of Robbie Ohmes with Bank of America.

Robert F. Ohmes - BofA Merrill Lynch, Research Division

Actually, 2 questions for Kathy. The first one, Kathy, just the -- I was hoping you could maybe talk a little bit more about the drivers to keep category gross margins improving, sort of how you're doing that, is it -- if it isn't mix shift that you guys are looking for to keep gross margin going up, so just some commentary on that. And then also, not to corner you, but while I have you, I think I bought 3 or 4 Kindles at your stores literally over the last 12 months, and I was hoping you could maybe give some of us some more insight into the thinking behind taking that out of your stores.

Kathryn A. Tesija

Sure. For the first question, Robbie, in terms of the gross margin, certainly, mix helped us, as I said earlier, with Apparel. And as we grow Apparel, that definitely is positive. Owned brands is another one that's positive, that we continue to grow and intend to for the future, which will help us. In terms of rates and how we're doing that, I think it's a number of things. There's not one single contributor, but it's optimizing our prices across-the-board, whether that's our regular retail, our promotional retails or our clearance. There's a lot of work that we do with that, as well as, as guests are trading up into better brands, there's typically more profit in those brands. So it's a wide mixture of things that are driving it. And certainly, our inventory control helps that as well. In terms of the Kindle, we continually go through an assessment of our assortments, and we felt that this is the appropriate decision for us to make at this time. So we will be phasing out the Kindle products throughout the spring here of 2012, and we will be out by early summer.

Operator

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

Jeffrey P. Klinefelter - Piper Jaffray Companies, Research Division

Just a couple of questions, one back on e-commerce. Kathy and/or Gregg, I was just curious if you could talk a little bit more about any sort of category dynamics that are leading you to conclusions about kind of opportunities you have where there've been deficiencies, where you're tracking below your plan or below what you'd expect, given your store penetration in those categories. And how much of the improvement going forward will come from tech investments in the service levels versus just approaching that channel differently from a merchandising standpoint?

Kathryn A. Tesija

Jeff, there's a lot of things that are leading us to decide what it is that we want to -- where we want to make improvements. Some of them are on the category dynamics and how we're selling, but even in categories where sales are fairly robust -- Apparel sales online have been fairly robust -- I still think that there's a lot of improvements that we can make. So a lot of the metrics I talked about earlier are things that affect the whole site, things like speed and search, our order fulfillment. And so we've just done, as a team, a deep assessment of how we think we're performing, where the site is slower, how good our search function is relative to some of our competitors. And that, along with the category dynamics, are driving us to where we think we need to make changes. And I would tell you that it's a combination of investment in technology but also in our process and just how we're going about our business and, certainly, to your point, our approach to multichannel versus a separate channel and how we're looking at the overall strategy by business and how that plays out online, I think, will strengthen our ability to sell product there. But a large investment will happen in technology to make us faster and smoother and easier for the guests to navigate.

Jeffrey P. Klinefelter - Piper Jaffray Companies, Research Division

Just a couple of follow-ups on that. In terms of the technology investment cycle, at what point do you feel like you'll be kind of through that and, from that point forward, sort of leveraging that new tech investment? And then also in terms of the merchandising staffing, will you maintain separate staffs, separate merchandising groups, going forward for those? Or will you look to more kind of integration between channels, going forward?

Kathryn A. Tesija

I'm not -- I don't know that I can tell you about the tech investment of when we will leverage that. We are investing heavily now and see that we will into the future. It's a key part of our business, not only the product that's sold online but, of course, all of the sales in stores that are influenced by the research that's done online. So it's a key part of our business that we will invest in for a very long time. In terms of the staffing, I don't know that we've made a decision specifically on what will be separate and what will be together, but we work together on setting the strategy for each category. And then we do have separate buying teams today, although they are ever-increasingly working more closely together as the channels kind of merge and complement each other. So I think, in terms of what that looks like, that's something we will assess for a very long time, but I don't see any big changes in the short term. We are adding to that team, that's probably the biggest change, and we have been now for quite some time as it's been growing.

Gregg W. Steinhafel

I'd just add: I think, over time, we'll likely end up in some kind of a hybrid of where we are today. We've had separate and distinct teams. We have co-located and done some integrations both in terms of the strategy and the physical placements of our team. And I -- we think over time that we'll continue along those lines, although it's unlikely that everything would be integrated together. So there will be some teams that are co-located and are very, very integrated physically, strategically, and there will be other parts that will remain a little bit more separate, although, as Kathy said, we take one approach to the business, one strategy, and then it's just how we execute that across both the physical and the online space.

Jeffrey P. Klinefelter - Piper Jaffray Companies, Research Division

That's very helpful. Just one other final question on Canada. In terms of the kind of market research or consumer testing you're doing in that market leading up to your opening, I mean, it seems that you have some opportunities in that market that would certainly be very distinct from the U.S. where you could index potentially very high relative to your average in potentially Apparel and other discretionary categories. Just curious about that process, how you're preparing for those potential differences.

Gregg W. Steinhafel

Well, you're right. We do believe that's a whitespace opportunity for us. And we've done a lot of research, a lot of different kinds of research, and there's no one aspect that leads to any one conclusion. We continue to listen and learn and get close to the Canadian consumer. Many of them are very familiar with the brand, either shop in our stores or they are current REDcard product holders, so there's a high familiarity of the Target brand. And they're looking for the Target experience. They really want the full-blown Target brand experience as we come to get Canada. So that, first and foremost, is our -- our priority is to deliver a great Target experience across all categories, great service, great team engagement. And then because there is -- what we believe is some whitespace in Apparel and Home, we're going to go after those businesses, and we'll look to over-index and over -- or invest a little bit more heavily in the space and some of the physical assets so that we can take advantage of what we believe is going to be a great opportunity for us to deliver our Expect More. Pay Less. strategy in those categories. So we would agree with you on that.

Operator

Your next question comes from the line of John Zolidis with Buckingham Research.

John Zolidis - The Buckingham Research Group Incorporated

Two quick questions. I guess one of them is a follow-up on the question about Canada. If you could look back to when you decided initially to go into Canada compared to today, what changes do you see in the competitive environment over that period? And does that at all change your outlook? That's question number one. And then second, can you just give us an update on the cross-shopping of multiple areas within the store for guests who've signed up for the 5% Rewards card? Are the -- is the basket for that customer -- you mentioned it increased. Does it represent all areas of the store? Or is it concentrated in any particular area of the store?

Gregg W. Steinhafel

Looking back on Canada at this point in time, we don't see anything that we would do differently. I mean, the -- it's really the Canadian consumer that's going to benefit by our entry. We're -- we hope to become their favorite store as we enter into that. But clearly, all of the Canadian competitors are anticipating our arrival, as well as the Canadian consumers, and so they are improving their value proposition, they're investing in their asset base, they're improving their experience. And ultimately, that is just going to better serve the Canadian market. We hope to launch very successfully and wow them with our content, value proposition, speed of service and all the wonderful things that we do, Target here in the U.S. We look to do that in Canada as well. And ultimately, the Canadians are going to have a far-superior shopping experience across all channels due to our entry. But there really isn't anything that we look back in hindsight and say, "Hey, we would do anything different," at this point in time.

John J. Mulligan

Right. And on the 5% Rewards basket question. We see a basket in the incremental lift that is very, very similar to the baskets of that guest prior to their experience. There's a very, very small mix impacting gross margin, but it is insignificant relative to our gross margin or the performance of the 5% Rewards program.