

Thanks, John, and good morning, everyone. As we look back at both the fourth quarter and the year, we are very pleased with the progress we made throughout 2015. Traffic increased in all four quarters and the team delivered on our comparable sales and operating margin rate goals by driving rapid growth in our signature categories. And our full year adjusted earnings per share of \$4.69 was above the top of the range we provided last March, keeping us on track to deliver our longer-term financial goals.

In the fourth quarter, our business generated adjusted earnings per share of \$1.52, up \$0.03 from a very strong performance in the fourth quarter of 2014. Comp sales grew 1.9% in the fourth quarter, building on a 3.8% increase in last year's fourth quarter. Target's great store experience, unique items at an unbeatable value, and broad simple promotions resonated with our guests and drove this growth. Transactions, our measure of traffic, increased for the fifth quarter in a row, up 1.3% in the fourth quarter, reflecting growth in all of our selling channels.

Digital sales increased an industry-leading 34% in the fourth quarter, on top of 36% growth in the fourth quarter of last year. Strong Black Friday and Cyber Monday weeks drove this increase. In fact, after setting a new digital daily sales record in the week of Black Friday, we shattered all previous records on Cyber Monday. Our offer was broad and simple, 15% off everything on our site. And the guest response was exceptionally strong. Our holiday season merchandising and marketing plans were focused on delivering broad, simple and compelling offers like our 10 Days of Deals, Black Friday doorbusters and the site wide offer on Cyber Monday, and the bounce back coupon we offered to guests in our stores on Black Friday, all supported by cohesive marketing plans featuring outstanding creative work.

This plan delivered record sales over the November and December period, driven by comp sales in our signature categories: style, baby, kids and wellness, which grew nearly 7% over that two-month period. Sales in kids were particularly strong with the fastest growth in toys and kids home products. In style, we saw the fastest growth in women's apparel, led by double-digit increases in ready-to-wear. And in wellness, wearable electronics and food led the way.

Across our traditional category designations, apparel grew in the low-single digit range. In hardlines, toys grew comp sales more than 10% in the quarter, marking the third quarter of double-digit comp growth in toys. This strength helped offset a sales decline in electronics, where sales benefited from robust growth in wearables, but also reflected the impact of industry-wide softness in tablets. Consistent with the third quarter, fourth quarter comp sales in food grew faster than our overall sales, outpacing trends in the first half of the year, validating the changes we're making to the

assortment, presentation and freshness. And finally, home grew about 4% in the fourth quarter. With this performance, home delivered a 4% comp sales increase for the full year, the strongest annual performance in this category in more than 10 years.

Finally, prior to the holiday season, we reimagined the See Spot Save area in the front of our stores, which is large and a very profitable business, and transformed it into Bullseye's Playground. We've modernized the environment, making it easier to navigate, more appealing and fun, incorporating our much-loved mascot into store displays. While we love the new look, our guest reaction is what really matters. And the fourth quarter results showed they loved it, too, as comp sales in Bullseye's Playground grew more than 25%, compared to See Spot Save in the fourth quarter of last year.

December marked an important milestone for the company as we closed on the sale of our pharmacy business to CVS Health. Our team has been working closely with our colleagues at CVS, both before and after the sale to ensure this transition is seamless for our team members and our guests. And while that transition is not yet complete, we're very pleased with the progress we've made so far. A small number of our store pharmacies have already been rebranded as CVS locations and, over the next six months, we'll complete the rebranding of all of our pharmacies and clinics in stores across the country.

We believe this transaction will create value for our guests, providing them access to the capabilities of a best-in-class healthcare provider while they're shopping our stores. And, we expect both Target and CVS to benefit from this transaction, allowing both companies to leverage their respective strengths. Importantly, we believe CVS will be able to grow traffic in our store pharmacies faster than we would have been able to do on our own, given our lack of scale when we ran this business. In addition to the ongoing value we'd expect to realize from this arrangement, the sale has already provided more than \$1 billion of net cash that we'll use in support of our capital deployment priorities.

Turning to capital deployment, we generated very strong cash flow in 2015, which we deployed to the benefit of our shareholders. Beyond funding capital investments in support of our strategic and financial goals, in 2015, we returned nearly \$5 billion through dividends and share repurchase, well ahead of the goal we set at the beginning of the year. Even with this robust return of cash, we ended this year with a very healthy cash balance, positioning Target for another strong year in 2016.

Now, before I turn the call over to John, I want to pause and thank the entire Target team for what they accomplished in 2015. As I look back to a year ago, I believe we're operating on a much stronger foundation today. And while we've got much more to accomplish on this journey, the team today is agile and aligned around a small set of key enterprise priorities, allowing us to move much more quickly. Today, the team is taking an outside-in approach to our work, understanding how Target fits into the consumer and retail environment as we work to grow the company on behalf of our guests.

When Cathy began working with us last year, her first observation was how talented this team is, and how passionate they are about both Target and our guests. Not surprisingly, that was my first observation when I arrived at Target in 2014, and something I know John has experienced throughout his career with this great company.

With that, I'll turn the call over to John, who will discuss his team's progress in efforts to improve our operations. John?

**John J. Mulligan - Chief Operating Officer & Executive Vice President**

Thanks, Brian. Good morning, everyone. Today I'm going to provide you with a brief update on our work to improve operations. And I'll provide more detail about our strategy and future plans at the meeting next week. Our work to reduce out-of-stocks is continuing to pay off, as metrics improved sequentially from the third quarter, and even more dramatically when compared with the fourth quarter a year ago. Specifically, for the fourth quarter in total, out-of-stock metrics were 20% better than last year and notably, by the end of the quarter, Target's out-of-stock metrics were 40% better than a year ago, as the improvements we've implemented allowed for a faster post-holiday recovery this year.

We saw out-of-stock improvements across every category in the fourth quarter. As I mentioned in the last conference call, our work has been focused primarily on essential items for which reliability is particularly important for our guest, and I'm really happy with our progress. For the set of focused items we've designated in essentials, our out-of-stock metrics are better than we have ever measured. While this progress is exciting, I'm even more pleased that this improvement has been accomplished through systematic, and therefore sustainable, changes.

In other words, this isn't an example of temporarily adding resources to work around systems and processes. Rather, this is a case of making improvements to those systems and processes to support a sustainable improvement in performance. Because upstream variability in the supply

chain hampers our ability to keep our stores in stock and provide tight shipping windows to our guests, a key pillar of the team's work is focused on improving freight flow through the supply chain. As part of this effort, the team has created smart, systematic rules governing safety stock and distribution centers, and they've optimized pick frequencies on priority items.

In the fourth quarter, the team began an array of tests to reduce variability of inbound shipments at our DCs, with a goal of reducing inbound variability by 50%. Similarly, the team plans to engage in tests to optimize outbound volatility, which will further improve overall freight flow. While we are still early in this journey, the team's work on flow was a key reason we saw a much faster recovery this holiday season, and why we entered 2016 with a much better in-stock position than a year ago.

Beyond in-stocks, we are entering 2016 with very little clearance inventory, even compared to a strong position a year ago. As you'll recall, last year's fourth quarter sales were much stronger than expected, as we planned for a 2% comp and ended up with growth nearly twice as high.

With last year's unexpectedly strong sales, we saw very high sell-through percentages on seasonal merchandise. However, as a result of great product and of the changes we've implemented this year, quarter-end sell-throughs on seasonal merchandise were slightly better than last year, putting us in a very clean inventory position at the beginning of the year. These are just a few examples of the team's work to implement quick solutions that are already having a tangible impact on our results.

At the same time, we are working to build capabilities that will support our future growth. I'll provide a lot more detail on these future focused efforts in my remarks at next week's meeting.

As you know, we have been building our flexible fulfillment capabilities for several years, and this holiday season highlighted the power of these capabilities to serve our guests and drive business performance. And while we've added capacity across our entire direct-to-guest network, our fourth quarter experience demonstrated the power of relying on our stores to fill digital demand.

This holiday season, our stores fulfilled 30% of our digital orders through the combination of order pickup and direct-to-guest shipments. On Black Friday weekend alone, our stores fulfilled more than one million digital orders. And even though the traditional view of Cyber Monday doesn't even include brick-and-mortar, Target stores set an all-time record for order pickup on that day with more than four times the volume compared with last year. And

like last year, order pickup became even more important in the days leading up to Christmas, growing to half our digital volume.

While our stores help us save meaningfully on shipping costs and allow us to fulfill guest demand faster, they also help us capture more sales. Because we now have a single view of inventory, encompassing all of our distribution center and store locations, we can rely on our entire network when fulfilling digital orders, keeping us in-stock on a greater percentage of digital orders.

Specifically, during the holiday season, about 40% of our order pickup and store shipped volume consisted of items that were out of stock in our web fulfillment centers. This preserved sales on orders we would have otherwise missed had we only accessed inventory in our web fulfillment centers.

Before I turn the call over to Cathy, I also want to provide an update on our decision to bring visual merchandising talent into our stores. Last fall, we announced we were filling more than 1,400 new visual merchant positions in our store organization. In scoping responsibilities for these roles, we benchmarked industry-leaders to define the necessary capabilities and enhanced our interview process to better assess for these skills when interviewing potential candidates.

The majority of these positions have been filled by external candidates with experience at other retailers, but we have also tapped into talent that we identified within the organization. Our visual merchants are focused on style categories in our home, apparel and seasonal areas and they are trained to rely on sales and inventory data, while developing compelling visual presentations in our stores.

As a result, their job requires that they balance art with science and productivity with creativity. Because of their unique qualifications, this team is responsible for training their store team colleagues to understand the latest product trends so the entire store team can better assist our guests as they shop our stores.

Although visual merchandising team is just ramping up its processes and tools, you can already see the early impact of their effort in our store displays. And we are very excited about the potential of this effort to elevate both signature categories and our store experience.

Thinking back to the year just ended, it's amazing for me to realize that we only formed our new operations team about six months ago. In that time, we have already seen meaningful improvement in our operations and we're entering the year with a much stronger in-stock position than a year ago.

As we look ahead, we see multiple opportunities to improve and end processes and build the foundation for our future growth while improving the shopping experience for our guests and enhancing our business results. I look forward to discussing these opportunities with you in New York next week.

With that, I'll turn it over to Cathy, who will share her insights on our fourth quarter financial performance. Cathy?

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Thanks, John, and hello, everyone. As Brian mentioned earlier, we are really pleased that our team delivered strong traffic and sales growth in the fourth quarter. Our financial results continue to validate the strategic changes we've made, confirming that we are focused on what's most important to our guests. Our fourth quarter adjusted earnings per share of \$1.52 was well within our guidance range and up \$0.03 from last year's very strong performance. Fourth quarter GAAP EPS from continuing operations of \$2.31 was \$0.79 above adjusted EPS, reflecting the \$620 million pre-tax gain on the sale of our pharmacy business to CVS Health.

Comparable sales grew 1.9% in the fourth quarter on top of a 3.8% increase in 2014. Traffic was the primary driver of our comp growth, up 1.3%, building on a really strong 3.2% increase last year. This quarter marked our fifth straight quarter of traffic growth, and we are committed to driving continued traffic growth in 2016 and beyond. As I mentioned last quarter, results in our fourth quarter 2014 reflected a bounce back from the impact of the breach in the fourth quarter of 2013. However, even on a three-year stacked basis, our traffic was stronger in this year's fourth quarter than earlier in the year, demonstrating continued momentum from the strategic changes we've implemented. One note, fourth quarter reported sales were down a little less than 1% from last year, reflecting our comp sales increase offset by the impact of the sale of the pharmacy business which closed in mid-December.

Digital sales grew 34% in the fourth quarter. And we saw the most dramatic increases in the Black Friday and Cyber Monday weeks. These increases were driven by our simple, broad and compelling offers, and as John mentioned, our flexible fulfillment capabilities played a key role in driving our fourth quarter digital sales growth.

REDcard penetration was 23% in the fourth quarter, up about 190 basis points from 21.1% last year. This increase represents a moderate acceleration from the trends we were seeing earlier in the year, combined

with the impact of the removal of our pharmacy sales. Because a meaningful portion of our pharmacy sales consisted of reimbursements from third parties, REDcard penetration on our total pharmacy sales was very low. As a result, the pharmacy sale will increase REDcard penetration throughout 2016. And to add clarity, we've provided an apples-to-apples comparison in our press release schedules. For the fourth quarter, REDcard penetration would have been up about 160 basis points from last year had pharmacy sales been removed from both years.

Our fourth quarter segment EBITDA margin rate of 9.8% was flat to last year's strong performance. Among the drivers, fourth quarter gross margin rate was down about 60 basis points from last year, reflecting a small benefit from sales mix, including the removal of pharmacy sales, offset by investments in promotions. As John mentioned earlier, last year's stronger than expected comparable sales growth drove very strong gross margin rate performance in fourth quarter 2014 as regular price selling on seasonal items was unusually high. This year, with sales in line with our expectations, our gross margin rate reverted to a more normal level, given the competitive dynamics we faced in the fourth quarter.

Every holiday season we gain insights into the evolution of our guests' shopping behavior, and this year's results showed us that clear, compelling, broad based offers are appealing to our guests. This insight will inform our strategy as we work to further refine our promotional effectiveness in 2016.

Favorability in our selling, general and administrative expense rate offset the fourth quarter gross margin rate decline. This performance reflected an increase in our store payroll expense rate, driven by investments in our store team, including the visual merchants, John mentioned earlier, partially offset by underlying improvement in unit productivity. However, the pressure from store labor expense was offset by favorability in our marketing and bonus expense rates and disciplined spending across the organization.

At the end of the year, our merchandise inventory was up about 4% from a year ago, a bit more than our current sales trends. As John mentioned, we ended the year with a very clean inventory position, and the year-over-year increase reflects intentional inventory investments which are supporting record in-stock levels in our focus categories.

Turning now to capital deployment. We paid dividends of \$345 million in the fourth quarter, up 4.4% from a year ago. Our business results and cash position also enabled \$1.3 billion in share repurchases in the fourth quarter, meaning we returned more than 110% of our net income through dividends and share repurchases. And, even though we returned about \$4.8 billion to

our shareholders in 2015, we ended the year with a healthy cash position, including cash from the CVS transaction, which closed late in the year.

Before I turn to our guidance for the first quarter and provide some insights of our financial plan for the year, I want to review last year's performance against the guidance we provided a year ago. Let's start with sales. A year ago, we laid out a plan to grow total sales 2% to 3% on comp sales growth of 1.5% to 2.5%, led by growth in our signature categories. We achieved our comp sales goal by generating very solid growth of 2.1%, and comp growth in signature categories was more than two and a half times as high as our comparable sales growth overall. Total sales grew slower than comps this year, due to the removal of the pharmacy sales beginning in December.

Of course, the sale of the pharmacy business was not reflected in our guidance a year ago, as we didn't enter into the deal until June. However, while the sale of the pharmacy business will continue to affect our total sales this year, we first articulated the expected benefits of the deal in June, which include faster traffic growth, higher profit dollars and rates, and higher ROIC from the upfront capital we received from CVS.

Now let's turn to digital. A year ago, we laid out a goal to grow Target's digital sales an industry-leading 40% and, while we didn't quite make this ambitious goal, we did lead the industry with 31% digital sales growth in 2015. With this growth, we delivered our financial goals and we gained deeper insights into how our guests want to interact with Target. Moving down the P&L, a year ago we said we expected to grow our segment EBITDA rate 20 basis points to 30 basis points in 2015. Given – driven by modest improvements in both our gross margin and our SG&A expense rate, we ended the year ahead of that goal, up about 50 basis point points, reflecting favorability on both the gross margin and the SG&A expense lines.

Turning to capital deployment, a year ago we were expecting 2015 capital expenditures of \$2.1 billion, planning for a 5% to 10% increase in the quarterly dividend in the middle of the year, and we expected \$2 billion or more in share repurchases for the full year. How did the year turn out? We spent about \$1.4 billion on capital expenditures in 2015, we hit the middle of our guidance with a board-approved 7.7% dividend increase in June, and we exceeded our share repurchase guidance with about \$3.4 billion in shares retired this year. Our 2015 share repurchase capacity reflected robust cash generation by our business and, of course, additional capacity from the closing of the sale of our pharmacy business in December.

Regarding capital expenditures, our 2015 spending reflected the retiming of certain projects resulting from prioritization efforts initiated by our new Chief Information Officer, Mike McNamara and his team. Following his arrival in



the middle of the year, Mike dramatically reduced the number of non-infrastructure technology projects in order to refocus resources on the highest priority initiatives and make faster progress.

In addition, Mike's team began hiring hundreds of additional engineers in order to reduce our reliance on contractors and vendors. These changes reflect our commitment to prioritize spending on both capital and expense to best support our enterprise priorities and, in the current environment, our spending priorities are currently tilting towards expense, including investments in technology engineers, in our store team, including the hiring of visual merchants, and in our headquarters teams, in the areas of data science and operational excellence.

So how did the elements of our 2015 P&L translate into adjusted EPS? By achieving our comp sales goal while exceeding our guidance for profit margin and share repurchase, we delivered \$4.69 of adjusted EPS this year, above our guidance range of \$4.45 to \$4.65, and more than 11% higher than 2014. And while we didn't provide specific guidance for return on invested capital in 2015, we reported after tax ROIC of 16% this year. I'll quickly note, because the ROIC calculation doesn't adjust for nonrecurring items, this year's performance included the gain on the sale of the pharmacy business. Excluding this gain, our business generated a very healthy after tax ROIC of 13.9% for the year, up well over a percentage point from 2014.

So with full year 2015 performance as context, let's turn to our detailed guidance for first quarter. I will also provide some high level details of our plan for the year and discuss those plans in more detail at our meeting next week.

I'll start with our view of comparable sales for the full year. We are planning for comp growth in the 1.5% to 2.5% range in 2016 consistent with our performance throughout last year. Given that we're one year into a multiyear journey, at next week's meeting, I'll discuss why we believe we have the capacity to grow comps a bit faster than this range over time. However, in the current environment, we believe this is a prudent range to plan for this next year.

With that context on full year sales, I'll turn to the first quarter. As we plan our first quarter comp in light of competitor inventory positions, we're anticipating growth in the lower end of the 1.5% to 2.5% range we're planning for full year. First quarter reported total sales are expected to decline 4.5% to 5%, reflecting the removal of pharmacy sales from this year's results. One note on our sales guidance we haven't specified a goal for digital sales growth. I'll discuss our reasoning for this change in more detail next week, but for now I'll simply stress that our commitment to

digital is as strong as ever. And while we will continue to include digital metrics in our financial reporting this year, we are going to gauge our success based on Target's overall traffic and sales growth without making an arbitrary distinction between channels. This change is consistent with how our guests think about shopping as we've confirmed with our guest research.

Moving onto the first quarter P&L, on the EBITDA margin rate, we are expecting an improvement of 60 basis points to 70 basis points in the first quarter, driven by an increase in our gross margin rate, partially offset by a moderate increase in SG&A expense rate. The expected gross margin rate improvement primarily reflects the benefit of the removal of low margin pharmacy sales from the mix combined with a moderate improvement in the underlying business. On the SG&A line, our forecast anticipates some pressure from the investments we're making in our store team along with incremental expense from the reissuance of REDcard debit and credit cards as we move guests to much more secure chip-and-pin technology.

On the depreciation and amortization expense line, we are expecting 20 basis points to 30 basis points of pressure in first quarter, reflecting the removal of pharmacy sales and a slight increase in D&A dollars over last year. We expect first quarter interest expense dollars to be flat to last year. We're planning for a first quarter effective income tax rate of 35% to 36% and we expect to continue to engage in meaningful share repurchase given our cash position. All together, these expectations position us to deliver first quarter adjusted EPS of \$1.15 to \$1.25 compared with a \$1.10 a year ago.

Turning back to full year, we expect to deliver full year 2016 adjusted EPS of \$5.20 to \$5.40. And I'll provide more detail on the individual P&L items next week. For now, I would note that this performance would exceed our longer term financial algorithm to generate annual adjusted EPS growth of about 10% as it reflects the expected share repurchase benefit of the incremental cash we'll deploy from the sale of our pharmacy business.

Now, I'll turn the call back over to Brian, who is going to provide a quick preview of next week's financial community meeting. Brian?

**Brian C. Cornell - Chairman & Chief Executive Officer**

Thanks, Cathy. Before we take your questions I thought it'd be helpful to cover our agenda for next week. In New York next Wednesday, I'll open the meeting with an update on our strategic priorities and the initiatives for 2016, then John, will provide deeper insights into the work his team is doing to transform supply-chain and their efforts to drive operational excellence across the enterprise. And finally Cathy will provide insights into how we expect to continue to deliver on the long-term financial algorithm we laid out

last year. Following the presentations, we'll have a Q&A session with all three speakers along with several other members of our leadership team who will be attending this meeting.

At last year's meeting, I outlined our enterprise priorities and told you that I hoped it would remain consistent for years. So here's the spoiler alert. Our priorities today remain consistent with a year ago. We made progress but we have a lot more to do. And our tactics will always be evolving but this year's results demonstrate we're focused on the right work. At this year's meeting, we plan to show you how we're getting even closer to our guests, gaining a deeper understanding of their wants and needs and how Target fits into their daily lives.

We also plan to show you why we're so excited about all the new products we've developed for this year. And for those of you who will be with us in New York, you'll see vignettes showcasing newly-developed products across multiple categories, including our incredible new Kids brand, Pillowfort. So whether you plan to be with us in New York next week or listening to our webcast, we hope you'll join us to gain a deeper understanding of our strategic and financial plans going forward and why we're so excited about the prospects in 2016.

With that, we'll conclude our prepared remarks. And now Cathy, John and I will be happy to respond to your questions.

## **Question-and-Answer Session**

### **Operator**

Your first question comes from the line of Kate McShane with Citi. Your line is open.

### **Brian C. Cornell - Chairman & Chief Executive Officer**

Good morning.

### **Kate McShane - Citigroup Global Markets, Inc. (Broker)**

Hi. Can you hear me?

### **Brian C. Cornell - Chairman & Chief Executive Officer**

We can now.

### **Kate McShane - Citigroup Global Markets, Inc. (Broker)**

Okay. Great. Thank you. My first question is on CVS. You had mentioned in your prepared comments that you've already converted some of the pharmacies. And I know it's early days, but wondered if you could provide any detail and if you've noticed any notable changes in traffic in those particular stores? And just how disruptive is the rebranding across the chain over the next six months?

**Brian C. Cornell - Chairman & Chief Executive Officer**

Well, it's still very early, and we'll be tracking this carefully over the next few months. John Mulligan was actually down in the Charlotte market just a few weeks ago, where we rebranded some of the very first CVS pharmacies inside of Target. So John, why don't I let you share some of your impressions.

**John J. Mulligan - Chief Operating Officer & Executive Vice President**

Yeah, I think overall I don't think the rebranding will be a significant disruption for the store or the technology changes that are going to go on. As we walked the store, it looked fantastic. The CVS brand looks great. I think they've done a good job, a great job between our team and theirs, tying it into the total Target store environment. When we did this, we spoke a lot about the tools that CVS would bring not only to our guests but to our teams. The teams were certainly excited about the tools that CVS is bringing to them to help them do their jobs so that they can focus more fully on guest service. So we're very excited about that. And we're excited to see, like Brian said, as we go along later in the year, we'll see more marketing to talk about the relationship of the two companies. And also see the reaction of our guests as those capabilities are made more front and center for them as well.

**Brian C. Cornell - Chairman & Chief Executive Officer**

I'd only add we've been working for months and months now with our colleagues at CVS, to make sure this is a very smooth transition. And the plans we have in place will minimize the impact on the guests. So we're very excited about what this brings to Target, what it brings to our guests and to our shareholders and expect it to be a very seamless transition over the next six months.

**Kate McShane - Citigroup Global Markets, Inc. (Broker)**

That's great. Thank you.

**John R. Hulbert - Vice President-Investor Relations**

Thank you. Go ahead, please.

**Operator**

Your next question comes from the line of Michael Lasser with UBS. Your line is open.

**Michael Louis Lasser - UBS Securities LLC**

Good morning. Thanks a lot for taking my question, a two-parter. Number one is on the promotional activity. Can you give us a sense for how much you think that impacted the sales for the quarter and how is that going to influence your promotional posture moving forward? And then the second part of my question is on some of the stats, very helpful stats that Mr. Mulligan provided on the in-stocks, how much do you think that the increase in in-stocks helped in the fourth quarter? Thank you so much.

**Brian C. Cornell - Chairman & Chief Executive Officer**

Why don't I start by talking about the promotional environment? And we approach every year recognizing that the fourth quarter, this holiday season, is a very important time of the year for us. And it's going to be a very promotional environment. And as we sit here today, we really believe our playbook that we rolled out during the holiday drove traffic to our stores, drove traffic to our site, allowed us to accelerate our comp performance. And remember, we were comping a very strong Q4 from 2014. So we felt very good about the effectiveness of our promotions. They were broad. They were simple, and they worked both in store and online. So we feel great about the performance during the holiday where our signature categories performed well. We've worked with Nielsen and NPD to look at market share performance and clearly recognize that we gain market share as a by-product of our playbook in the fourth quarter. So we feel very good about our approach.

But to your question about the future, we're always stepping back and analyzing promotional effectiveness, looking back at our playbook. And as we plan for next year, we'll continue to enhance and refine and make sure that we have very broad, very simple and very effective offers that continue to drive traffic and profitably grow our sales. John, you want to talk about the impact of in-stocks?

**John J. Mulligan - Chief Operating Officer & Executive Vice President**

Yeah, I think we certainly can analyze, triangulate around the sales impact of in-stocks, but that would be providing you very rough estimates. What I think is much more important, when you talk about essential categories,

ultimately this is about the guests trusting that you will have the merchandise they want when they come in our stores. If a new mom takes her baby out in 10-degree weather for diapers and formula, you better have diapers and formula in your store. And so really it's about the trust that they have in the Target brand to always deliver wherever and whenever they want and over time there is no doubt in our minds that, that will drive sales growth for the long-term.

**Michael Louis Lasser - UBS Securities LLC**

That's very helpful. Thank you so much.

**John R. Hulbert - Vice President-Investor Relations**

Thank you, Michael.

**Operator**

Your next question comes from the line of Matthew Fassler with Goldman Sachs. Your line is open.

**Matthew J. Fassler - Goldman Sachs & Co.**

Thank you so much, and good morning.

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Good morning.

**Matthew J. Fassler - Goldman Sachs & Co.**

I'd like to talk for a moment about the SG&A line and just to put in context the cost cuts that you announced at last year's meeting, I guess about \$1.5 billion annualized, talk about where we are in recognizing those, and just thinking about the expense performance that you had against that. And as part of that, if you could address whether there's any incipient wage pressure that you've noted in the market, would be very helpful. Thank you so much.

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Go ahead.

**Brian C. Cornell - Chairman & Chief Executive Officer**

I'll start out and then I'll let Cathy and John also build on it. But as we talked about last year, we've had a very clear multi-year plan. We targeted over \$2 billion of savings. And in 2015, we've made very good progress against that plan. We're on or ahead of all the key metrics that we're tracking, and we expect that to continue as we go forward. So John and Cathy are working across the organization to make sure that those initiatives stay in place. And as John continues to build his team and we bring people like Anu Gupta on board to focus on operational excellence, we expect to find even greater opportunities for further improvement. So I think we're well positioned today. I feel very good about the progress we've made to drive productivity across the organization. And you should expect that to continue in 2016 and beyond.

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

I'll just add on a little bit. With regards to our performance with SG&A, the beauty of what we're seeing with the plan we laid out last year is, we're delivering upon it, but we're also recognizing how we can reinvest back in the business on the priorities that matter to our guest. And so if you think about our investment in visual merchandise leaders, that's a great example, 1,400 stores now have someone who is an expert at helping to showcase the categories that matter most to our guests. And so we're seeing the ability, as we save on one line, we can invest in other areas in our business.

And you had asked about wage pressure. I'm going to just put a plug in. We believe in having the best team in retail, and that has always been a differentiator for Target, and we believe more today than ever that that is going to be a differentiator. It's our wonderful team member engagement with our guests every single day, any way they interact with them. So we're going to be competitive in wage. We always assess it market-by-market, because we believe in fielding that best team in retail.

**Matthew J. Fassler - Goldman Sachs & Co.**

Thank you.

**Operator**

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

**Gregory Melich - Evercore ISI**

Hi. I just wanted to ask a little more detail on the guidance, Cathy, that you outlined. If you think about all of 2016, how much buyback is there or isn't

there in that guidance? And also, how should we think about CVS impacting the guidance, however you want to frame it, in terms of – you mentioned sales, but also margin, like should we expect a certain margin benefit, if it's 50 bps to 70 bps up in the first quarter, is that a good run rate for the year, or how should we think of it?

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Yeah, so, Greg, thank you. First off, I'm going to put a plug in to say that we look forward to seeing you next week, because we'll obviously unpack a little bit more of it then. But with regards to the share repurchase comment, in our guidance, we did assume a consistent level of share repurchase, like we've been talking. However, we're also sitting – we're ending the year with a pretty heavy cash position, because we closed the transaction late in December. And so you'll see us provide additional color into that. But suffice it to say, it'll be at the level of this year or higher. And we've included that in our EPS guidance of \$5.20 to \$5.40.

**Gregory Melich - Evercore ISI**

And on the margins?

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Yeah, so as we said, it obviously was an impact on sales, but very little on the aggregate EBITDA line, which is what we said longer term.

**Gregory Melich - Evercore ISI**

So your full-year guidance assumes some slight EBITDA margin increase, it seems?

**Catherine R. Smith - Chief Financial Officer & Executive Vice President**

Yeah – yes.

**Gregory Melich - Evercore ISI**

Thanks. Look forward to seeing you next week.

**John R. Hulbert - Vice President-Investor Relations**

Thanks, Greg.



## **Operator**

Your next question comes from the line of Sean Naughton with Piper Jaffray. Your line is open.

## **Sean P. Naughton - Piper Jaffray & Co (Broker)**

Hi. Good morning, and thanks for taking the question. Just on Q4, the gross margin was just a little bit lighter than I think consensus and we were modeled at. Could you provide just a little more detail on the variances or puts and takes in gross margin versus the internal plan that you had, or was that 50 basis point decline in line with your expectations?

## **Brian C. Cornell - Chairman & Chief Executive Officer**

Sean, as we think about our performance in the fourth quarter, it played out pretty much as expected. We know the fourth quarter is going to be very promotional, very competitive. We certainly saw the guests respond very positively to our offers, and that drove great traffic. It allowed us to build market share in our signature categories, and I think it positioned us well for 2016. So as we sit here, there's a lot of variables that go into building our plans for a quarter like the fourth quarter, but we're very pleased with the way our plans drove traffic to our stores, visits to our site, allowed us to accelerate comps on top of a very strong quarter last year. And we saw very broad increases across many of our signature categories, as we reported. So I think our plans were in line with our expectation for the quarter.

## **Sean P. Naughton - Piper Jaffray & Co (Broker)**

Okay. Great. And then just real quick, a follow-up for just, on how you're thinking about 2016. Just from getting a number of questions about how you feel about cost of goods sold, where are you seeing any inflation or deflation potentially in some of those categories, and specifically in Food, how is that playing through on the P&L right now? Thanks.

## **Brian C. Cornell - Chairman & Chief Executive Officer**

Yeah, Sean, again, a number of puts and takes as we look at the impact of changes in currency and the cost of goods. But it's all baked into our outlook for next year. And I think we approached 2016 with a lot of confidence that we've got great plans in place, terrific momentum, and as you'll see next week at the conference, the team's done a terrific job in building some exciting new brands that we'll showcase next week, and we're already seeing some really positive responses from our guests to our new kids' line Pillowfort. So we're excited about 2016, and we look forward to seeing you next week.

With that, I guess, operator, we've got time for one last call today.

**Operator**

Your last question comes from the line of Simeon Gutman with Morgan Stanley. Your line is open.

**Simeon Ari Gutman - Morgan Stanley & Co. LLC**

Thanks. Good morning. Thanks, Brian. A quick question that was, I guess, follow-up on something, the top line versus gross margin tradeoff. First, I take it you're pleased with the outcome. I recognize it's very difficult to optimize, but can you tell us maybe at least the growth you saw in digital, was that existing customers versus new? I'm trying to gauge the stickiness of some of the customers that came to you in the fourth quarter.

**Brian C. Cornell - Chairman & Chief Executive Officer**

Yeah, we're going to spend a lot more time unpacking this next week. But we recognize that today, our Target guest interfaces with the brand in a number of different ways. Sometimes they're in our store. Sometimes they're shopping online. We certainly heard many times because of some of the proprietary items that we offered during the fourth quarter, they were shopping online, but as John referenced, quickly coming to our stores to pick up those items.

So we felt really good about the way the guests responded to our offers during the fourth quarter, and a great combination of in-store traffic, more guests than ever before, clicking and collecting items in our store. And then the fact that we were able to leverage our stores this year over 460 where we were shipping from stores to our guests' homes. That overall package came together really effectively throughout the holiday.

So we feel as if we had a winning strategy in the holidays. It drove great comps on top of a very strong performance last year. And you and many of the others that are on the call have asked me repeatedly throughout 2015, would we be able to comp the 3.8% increase in 2014? Well, hopefully we answered that question. We answered it with strong momentum, and we were able to see both strong performance in our stores and we delivered industry-leading performance online. So we feel really good about the way we're exiting Q4, and well-positioned for 2016 and beyond.