Well, thank you, John. Welcome, and thanks for joining us this morning. Today, I'm going to provide an overview of our strategy. I'll talk about where we've been and more importantly, what's next. John will share more details about what we're doing to get there, and then Cathy will walk through our financial model. At the end of that, we'll spend the balance of the program taking your questions.

As you all know, we've been on a multi-year journey to redefine the future of our company to compete and ultimately win in this new era of retail. For the past several years, we've been watching several key consumer trends emerge. People are placing greater value on experiences. Often they would rather live it than own it, especially young people.

When they buy, they want to buy into a greater purpose, not just a product. Taken together, these changes can only be described as a profound shift in the consumer mindset. Then combine that with the different behaviors around how and where consumers are choosing to shop. Today, there is total transparency. Ease and speed are paramount. The shift in channel preference is real and only gaining momentum. Our industry is the midst of a seismic shift, and, of course, you read the headlines.

In fact, many of you write the reports, we're operating in an incredibly challenging environment. All across the retail industry, many of our competitors are aggressively rationalizing their assets. They are closing stores, exiting markets. They're cutting costs just to keep their heads above water. We've not seen this number of distressed retailers since 2009 in the Great Recession. This contraction will create opportunities for Target to pick up market share over the long-term, but aggressive promotional activity will create pressure on our business in the near-term. At the same time, there are others who are thriving in this new environment. So the changes we're making aims squarely at moving Target into the retail winner circle.

Now, I stood before you a year ago and I laid out five key priorities. I talked about on-demand shopping, establishing category roles, localization and personalization. I talked about small formats, and I talked about simplifying and controlling our costs. And we've made good progress executing against these priorities. But it's become very clear that our efforts were not enough to win in this changing and challenging environment, and you've seen that in our recent results.

We'll continue to have these same priorities, but today we'll tell you what's going to be different. We all know the industry shift has begun to accelerate, and we believe that rate of acceleration will only continue to increase. You see it, our competitors see it. John, Cathy and I, well, we live it every single day.

But what I want to talk about today is how at Target we are embracing this new reality, how we are building a company that's poised to lead and grow market share in digital and in our stores. And how we are laser focused on mastering execution and accelerating our efforts to become an even stronger competitor. Let's go back to 2014, the Black Friday weekend.

In 2014, more than 93% of our transactions took place in stores, less than 7% digital. That season we had just started shipping from a small number of stores. 2015, that same timeframe, digital sales reached almost 10% of our total sales. We more than doubled our ship from store capability to nearly 500 stores. We fulfilled 41% of all our digital orders inside of a store.

2016, just a few months ago, just last year, digital sales climbed to 14%, more than twice what we did two years earlier. We double shipped from stores again, more than 1,000 stores. Our stores were fulfilling 68% of our digital orders. We finished December with record digital growth, including record-breaking days on both Thanksgiving and Cyber Monday.

We realize on more and more shopping journeys our guests are looking to save time by using digital, and we only expect that trend to continue. But I know and you know, this channel shift comes with additional challenges. Today, that essential base Target run doesn't completely translate to the new digital world. Traffic drivers are fundamentally different and guests behave differently too. Put a guest in the store, they are looking for inspiration, they enjoy discovery, they enjoy shopping. But very often a visit to Target.com, it's far more transactional. One item at a time, logon, check out, as fast as possible friction free.

Now, we've proven we can build baskets with more storytelling and inspiring site merchandising, like we've done in kids with Cat & Jack. So there's an incredible opportunity for us to do more. But we also need to make sure, we don't impede efficiency, or complicate the overall experience in the process.

So this combination of changing behaviors and expectation is certainly causing stress in our model. But the reality is, this is where the guest wants to be. We will never be successful if we dig in and insist they shop the way their parents did. So, as I said before, given these realities, we are embracing the change.

We are reimagining and repositioning our assets to deliver even greater competitive advantage going forward. It's moving from a very linear model, supplier, distribution center, store-to-guest to creating a smart network. We're distribution centers, stores, digital channels, they become guest-facing access points, where Target is always on, where Target is always within reach, down the street on your door step, or simply in the palm of your hand.

So the challenge ahead is really about continuing to understand how consumer preference and expectations are evolving. Anticipating where they are going, what they'll want before they have to tell us. Finding new ways to engage at every stage in every occasion. Offering and clearly communicating compelling value in every interaction at every touch points and building a new Target that's uniquely positioned to compete and win, delivering on two pillars of market share growth, one digital, and one physical.

So this morning, I want to talk about what that looks like. The capabilities we're building, the investments we're making to emerge as a stronger competitor and ultimately grow. But I don't want to gloss over the important point. This isn't work, we just started. These aren't things we'll eventually do. These are initiatives that are well underway and we're making progress. What is changing is our speed. Maintaining our current margin rate will not allow us to go fast enough.

We're aggressively investing in the business to make sure we are highly competitive on price across our assortment all day and every day. We are making significant capital investments that will position Target for the long run, long-term sustainable growth. And all the while, as the investments take root, you will see a much sharper focus on execution every day in our stores, every day online, every day throughout our enterprise.

So let's start with some of those foundational capabilities we've been testing, building and beginning to scale. These are non-negotiables for any retailer that's going to win in this new era. These initiatives represent significant investments in terms of capital and talent, and they'll continue to be among our highest priorities in the years ahead.

In the last three years, we've more than doubled our digital sales from $1.4 billion in 2013 to more than $3.4 billion last year. And we did that in large part, because the investments we made to replatform our sites and mobile channels. Today, we have an entirely new engine under the hood. It gives us vastly more power in terms of speed, stability, performance and capability. We set up new functions investing in top engineering and data science talent and trained them to make sure their scope impacted the entire enterprise.

Now not long ago at Target, this was a new function. Today, it's one of our core strengths. When I think about stores, when you look at our store base, you can see that we've been highly intentional with our real estate strategies, prime first and second ring suburban locations. By and large, we are not tethered to shopping malls. We're isolated on some interstate far from guests.

But as you move from coast-to-coast, this experience is uneven at best. In LA, Chicago, Boston we have some beautiful stores. But we also have a large percentage of the portfolio, where the buildings just don't match the brand. They're old, they're tired and they have not been updated in years.

As you know, we spent 2016 testing the best of our enhancements from our store prototype pilot in LA. And now we're rolling the best of the best, as well as some new features to hundreds of stores across the country. Each store is going to look and feel like a totally new Target. We also see tremendous opportunity expanding our footprint in the key urban neighborhoods and on major college campuses.

The store's function in every respect as a store, a place you can shop, but they are also just as much hyper local fulfillment centers. Take a look at what we're doing right here in New York. Until now, we left this massive opportunity on the table, because we didn't have a solution to literally fitting Target into Manhattan. I can tell you those days are gone.

And just during the last six months, we've opened up three new stores in Tribeca, downtown in Brooklyn, and Forest Hills, Queens. Three very different sites, three different neighborhoods, three completely different experiences. Each one customized to fit the neighborhood. And I can tell you, you can expect to see more and more of these across the city.

In New York and beyond, we've been purposely very disciplined in our approach. But now, I can tell you it's time for us to accelerate this new format. Behind the scenes, our supply chain is in the midst of a total transformation, aimed at leveraging our proximity to the guest to unlock even greater value. How do we get just the right amount of product to exactly the right place at exactly the right time?

The work underway is game changing for Target. It will significantly reduce costs and dramatically improved speed, efficiency and reliability across our network. Target's scale and commitment to operational excellence has long been one of our true competitive advantages. But in this new era, size is not the endpoint.

How we leverage our size and scale not just in supply chain, but the entire enterprise is supremely important. But size is only an advantage if we use it the right way. In football, a lineman who is big and strong, but slow is easily outmaneuvered. But a player who is big, strong, quick on his feet is virtually unstoppable. The key to our future success is the focus on greater agility.

So you will see that in the way we are leveraging this network. But it goes deeper than that. You see the advantages we have in our multi-category portfolio and how it allows us to flex and manage trends in the marketplace. You see that in our balance sheet, which gives us the ability to invest to grow even during challenging times.

The third and final piece of our strategy is about standing proud and being confident about who we are, holding up the power and the potential of our brand as a beacon, and leaning into all the reasons guests fell for Target in the first place.

So at the start this morning, I talked about how we're looking at this seismic and accelerating shift in our industry and that's true. But you know better than anyone that these inflection points come around every generation or so. And strong retailers endure, while others, well, they don't. Pick your era defining change throughout history from downtown department stores to suburban malls, catalogs, e-commerce.

Target not only weathered the storm, we emerged better positioned as a result, and that's for many reasons. One, we know our guest, and we're making sure that the changes we make continue to build guest love for our brand. We know our guests are rooting for Target to win and those reasons are embedded in our DNA. Our differentiated assortment, an easy and inspiring shopping experience, engaging marketing, a deep commitment to investing in the communities we serve, giving back 5% of our profit, a promise we've kept for more than 70 years.

But as guest expectations evolve over time, we have to evolve the way we deliver the things that are most important, ease, value, and inspiration. So today we're redoubling our efforts. One example is the work underway to reinvent our portfolio of exclusive brands.

Cat & Jack and Pillowfort was just the toe in the water for us. Our teams right now are busy building brand after brand, and they are prepared to unveil them one after another, season after season. In a moment, John will provide a lot more color and content, where we are today and what's to come. But before I close out, I want to make sure one thing is really clear, that underlying all this work is an unbending commitment to continued operational efficiency. A commitment to invest in our core business, constantly elevating the in-store shopping experience and a commitment to learn and innovate.

To get where we want to go, we know we can't fixate on short-term opportunity. Target is taking the long view. And we can either bemoan the changing conditions in the marketplace, or we can embrace them and double down on our strengths. Now in all candor, 2016 was not our best year, and we're facing some headwinds as we begin 2017. But we're asking shareholders to make a meaningful investment, to build a stronger growing company for the future.

The good news is that, we've been working on this for a while, and we know how to align around the change rather than run from it. Our goal today is to demonstrate that the investments we're making are the right investments for the future, are the right decisions for the long-term and will create greater shareholder value.

John and Cathy will address this in more detail in a few minutes. But in addition to making the capital investments, we're also investing $1 billion in operating margins this year. It will allow us faster growth over time and ensure we're competitively priced every day starting right now.

Now clearly, this is a significant change in our financial model. But it reflects the new realities of the seismic shift that's occurring across our industry. Combine these investments with our unique asset base and we believe Target's opportunity is fundamentally different from any of our competitors. No one has our stores, no one has our assortment, no one has our brands, no one is closer to the guest, and no one is better positioned to compete in this next generation of retail like Target.

So while others are pulling back, Target is investing to compete and investing to grow. We're investing in stores. We're investing in our supply chain and in digital to fuel our business growth. We're investing to win share, not surrender it. There will be winners and losers in this new era of retail. This plan is all about how we emerge on top. It's how we strengthen Target's value proposition to our guests and for our shareholders. It's how we build a company that will deliver strong returns for many, many years to come. So thank you.

John Mulligan

Good morning, everyone. Well, you just heard it from Brian. Our brands, our smart network, the incredible value we offer our guests put together give us a unique position as we move into this next generation of retail. And over the past few years, we've made significant investments to make our assets work even harder, while we're seeing progress, we're nowhere near done.

Brian just talked about the record number of days this season when we saw all-time high digital sales. Make no mistake, we're proud of that performance, but what he didn't say, and what's just as important is that, behind the scenes our platform functioned flawlessly. Record online sales, record traffic, and more than enough capacity in the system to keep things humming right along. A year ago, as you well know, it was a different story.

Back in 2015, we introduced a general incentive offer for Cyber Monday, 15% off everything on our site, and our guests went crazy, which was great, right up until it wasn't. Demand was so high that quite candidly we had to throttle traffic to keep our site from crashing, frustrating guests and leaving millions of dollars on the table, not good. But the message was clear, put together a compelling offer, straightforward, easy to understand with really clear value and our guests will respond. But we also needed to really significantly increase our capacity to support the demand.

So this year, our Chief Information and Digital Officer, Mike McNamara and his team accelerated the reference to deliver a new adaptive platform that give us much more capacity, flexibility and stability. And when we put up record numbers this season, our site did not falter once for our guests. In fact, the new platform allowed us to adjust the site experience in real-time and drive additional sales and still our site had 100% availability all season long.

We invested in going well beyond what would simply help us manage through the next year. We built for the long haul allowing us to imagine our business far down the road. This is what we mean when we say we are investing to compete and grow. It's what we're doing across our business. We're sharpening our operational performance, so we can execute on our plans quickly, while at the same time we're making investments that set us up to compete in an increasingly fierce environment. We see enormous potential out in front of us and we're seizing every opportunity to capture it.

First, let's talk stores, our key competitive advantage. They are at the center of everything we do for our guests regardless of how we deliver. The 40% digital growth we saw in December, they enabled it. In the two days that followed our record-setting cyber Monday, our stores shipped more than 1 million orders to fulfill that demand. The week before Christmas, our stores fulfilled nearly 70% of our target.com orders. And on Christmas Eve, they fulfilled more than 80%, shipping about half of those to our guests and packing the other half for in-store pickup.

Our stores are a center for inspiration and discovery, they always have been and that's on changing. But when we look at them as buildings stocked with product, they are also local fulfillment centers. Now when you take the products our guests are already love and add in our store network, we have the unique potential to be incredibly competitive against both digital and traditional retailers, because for digital sales to work, you have to be able to deliver quickly and with as little cost as possible. That's why getting near the consumer has become the Holy Grail in retail.

Online-only competitors are investing rapidly to stand up warehouses that are storefronts that cut the distance between their products and the consumer. But we're already there, in fact, we're practically neighbors. 85% of our demand and three quarters of all Americans are about 10 miles or less from our 1,800 stores. So if we're talking about proximity, we already have it, no question. Brian mentioned that we're making investments to let us really exploit that advantage to compete on a whole new level.

So let me show you what we mean. So here are those 1,800 stores. We were really intentional about where we put these years ago, most in the suburbs, some in the exurbs, and a few in the city. But now here are the 32 small format stores we opened in the last few years, prime urban neighborhoods, college campuses places where the suburban format just did not fit. These sites are unlocking tremendous value. They have more than two times the sales productivity of our average store.

So even with higher operating costs, they generate healthy returns. They also serve as fulfillment hubs and a convenient pickup point for guests who would rather not have items delivered to the front step of their high-rise condo. In three years, we'll add more than 100 to where we are today. To get there, we'll open nearly 30 small format stores this year doubling the number we have now. And we'll open about 40 a year by 2019 with the potential for many more down the road.

Now this map doesn't outline every specific location, but it's representative of where we'll focus. This will add fulfillment points in dense neighborhoods in cities like New York, LA and Chicago, and near more college campuses, where lifelong shopping habits and brand affinities begin to take hold. As we expand, we will continue our hyper local approach. Before we plan a store, we get to know the neighbors, who they are and what they need. Then we design experience from the store's layout to the merchandise inside that fits its localization at its core.

Take a look.

[Commercials]

So I showed you how we are expanding our footprint with more than 100 small format stores over the next three years. At the same time, we'll begin an effort to transform our existing locations.

As Brian said, our store asset base is a key differentiator for us, but there is a big gap between how those stores should look and feel for our guests and where we are today. We know that to really compete in a local market we need to make some big investments in those buildings and so we are.

Starting in 2017, we'll reimagine 100 of our existing locations. We'll pull elements from our new store prototype, which we designed based on how guests responded to a multitude of tests we've run over the past few years like our LA25 pilot. For this prototype, we took a fresh look at everything, from the front of the store to the back room layout, the entrance displays to the product presentation, food and beverage to apparel.

As we build on what worked in LA25 and add even more enhancements with this new prototype, we expect to see a 2% to 4% sales lift per store. Not only will they feel like brand new stores, they'll do even more than they can do today. The design will be flexible, so the store can be configured to reflect the needs of each community.

We'll have more space dedicated to visual storytelling, inspiring guests by showing products together like entire outfits or table settings. And we'll reallocate space to support digital fulfillment, such as adding more room for order pickup and designing back rooms to grow our ship from store capabilities.

In 2018, we'll touch more than 250 stores and do that once again the next year. But we won't be rolling out the same thing every time. Well iterate, so we're always delivering new services and enhancements based on what we are hearing from guests. By 2019, we'll have reached 600 stores and that's just the beginning. We'll continue to make these investments, so our stores can deliver the very best to our guests no matter the channel.

With these enhancements, we will be able to expand ship from store capabilities beyond the 1,000-plus stores shipping today. Just as every store already serves as an order pickup location. By 2019, most stores will be shipping orders from the back room. And because we are improving how we flow product across our network, which I will talk about in a few minutes, each store will have even more of our assortment available to ship. You can see how this map gets really rich over the next year and into the next three years.

We continue getting closer to the guests shipping from more of our assets and improving the in-store experience across the country. We are also doing work in all stores to make it easier for guests to shop, no matter if their trip starts online or in-store. Take order pick up, which after nearly three years, we still see growing rapidly. Guests chose to have nearly 50% more items picked up in store this year than last. And they love that we'll have it ready for them within an hour or two.

We're making it easier and faster by separating the pickup and return areas, and we're moving toward a future, where we will use technology to alert the team when guests arrive. We are also continuing to fold digital into the physical shopping experience. Today, guests use Cartwheel, our digital savings app, nearly 5 million times every week. They use it to plan their trips and shop the stores.

Later this year, we will combine Cartwheel and our Target app to make shopping at Target even more easier and convenient. Guests will be able to make their lists, find items in stores, take advantage of great offers, and pay for their orders, all within a single app. And in our refresh stores, we'll test technology that gives the guest the ability to opt in and see what products around them are on sale with Cartwheel.

So it will be simple for them to find great value, while checking things off their list. At the same time, we're making the shopping trip even more inspirational. For the past year or two, we've been testing new visual merchandising strategies and watching how our guests respond.

Now, we're taking those learnings and cross-merchandising even more product categories. We're rearranging floor pads and standing up more compelling displays to help guests imagine how products work together and fit into their own lives. We're taking a similar approach to how we're featuring products on our site, so it's easier for guests to explore and find what they need, while discovering a few extra items along the way. In our stores, we know that human interaction plays a big role in the guest's experience. It's why our talented store team is such an asset.

Our expectation of store team leaders is a good example. Gone are the days when we sent a playbook from HQ and ask the teams to execute word for word. We're empowering and expecting store leaders to know their communities, know their guests, and do what's right.

Let me tell you about a store leader in Orange County, California named Kerry Kiper. She has a guest space that is very passionate about beer, not wine, and not just the domestic big guys. Her guests love craft beer. But instead of just stocking what our buyers in Minneapolis sent her way, she asked around, listened to her guests, shopped the competition and selected an assortment with the buying team that reflected what her guests want, and guess what?

Just like that Cyber Monday sale, give the guests what they want and they respond. And at Kerry's store they responded big time. Her micro beer sales shot up 60%. In fact, she saw a lift across her whole adult beverage business. As a result, we built a process at headquarters to capture those insights from the front lines, so our teams can work together to localize assortments across the country.

Kerry is just one example of how we're driving a cultural shift across the company. And we're seeing what happens when we clear the way for the experts to do their jobs. But we are not asking our store leaders to act on gut alone. We're giving star teams far more data, metrics and training to help make smart decisions. We're also giving the teams technology to improve a guest's experience and save the sale.

This summer, we're implementing a program where when a guest wants a different size or color our team members will take care of everything. They will be able to search our network's inventory, take payment from a mobile point-of-sale system, and arrange home delivery right from the sales floor. We expect to offer this level of service in all stores by holiday.

Finally, we are simplifying operational tasks, so our store teams can focus more of their energy on helping the guest. To make all of that work, we're leveraging the skills of our team members. We've always cross-trained our teams, so they can perform almost any task in the store.

Now, we're also standing up specialized teams like the crews that handle digital fulfillment, or food, and giving them more focused training, so they can use their expertise to best serve the guests. Improving the store experience is an enormous body of work. But it's no secret that investing in our stores is only part of the equation. And you know that our supply chain has been a major focus for our team.

This past year, we hired a lot of talent with deep expertise and set wheels in motion for a major revolution of how we operate. We've honed in on two points we have to fix. To put it bluntly, we are slow and we have too much inventory. And I can't tell you how painful it used to be to say that out loud. But now I'm actually eager to share it, because I'm so confident the work we're doing will position us to compete on a whole new level. Fundamentally, we're changing how we move product.

For the last 50 years, our supply chain has moved big case packs of product and we've done it slowly. In the future, we know we'll still have to move cases. But to replenish our stores faster and manage the growing digital demand, we have to start moving individual items too. The concept is really pretty simple. When a store sells one bottle of a certain shampoo, we put one of those bottles on the next store truck within hours. It's replenishing to actual guest demand and doing it fast.

Now to someone not familiar with supply chains that might not seem like a big deal. But here's why it is. When we move with that much speed and precision, all the product that comes into a store can go straight to the sales floor. Nothing sticks around in the back room. Out-of-stock goes down, safety stock goes down and our speed goes up, way up, plus it's exactly how we need to move product to fulfill an increasing number of individual target.com orders.

Above all, we get faster and more reliable and the guest wins. Then we can dedicate that back room space to more productive activities, like storing online only product for order pick, or shipping digital orders. And there's no extra product at one store when it could be used at another. I just talked about scaling our small format stores. This operating model is absolutely key to pulling that off.

In those stores where back rooms are typically tight or almost non-existent, we will be better equipped to send product needed in real time instead of relying on backroom storage.

Today, we have several pilots already underway and we will start transitioning to this model in the spring starting in the Northeast. The opportunities these changes open up in terms of last-mile delivery speed are really exciting. We'll ship faster and at a lower cost, improving guest satisfaction and digital profitability. It has the potential to give guests more options for how to shop and how to truly get it whenever they want it.

I'm very encouraged by the work already underway and about what our team expects will do in the next few years. We've set out to completely transform how we deliver for our guests, and I can't wait to share more as we make progress. As we are investing in our stores and our supply chain, we are also undertaking an enormous effort to strengthen what our guests already love about us, our products. Target's assortment has always been the star of the show. It's why we hear about the guest who comes in for one thing and leaves with a full cart. We know our style categories are typically at the heart of those stories.

Home and apparel deliver about $26 billion in sales, or more than a third of our business and continue to grow significantly faster than the rest of our assortment. But even with strong results, our team has seen the opportunity to more – to do more. Take what we did with Cat & Jack, the kids apparel brand we launched last year.

Our research told us we could capture more of the market, so we retired two pretty successful brands and developed something new to reflect the needs of both parents and kids. Since it rolled out in July, Cat & Jack has consistently delivered double-digit comp growth. It's on track to be become a billion-dollar brand in its first year with the potential to be the largest kids brand in the U.S. It wasn't just that we saw a new opportunity, it was how we went after it.

We took a holistic approach, making sure every touch point guests had with the brand, whether in-store or online was compelling, inspiring and easy to shop. While our stores featured product on mannequins and kid-sized fixtures, our site had a dedicated page that showcased Cat & Jack in a similar way, as a brand with outfits, not just a list of products and made it easy to shop by item. Both channels put the product front and center and our guests responded.

Store traffic increased, digital conversion rates shot up, baskets grew. We saw strong sales across the business. In fact, the digital brand pages were so successful, it's how we will present our products online going forward. We learned a lot about our guests, the potential in the market, and how we could use our platforms together to drive growth.

Now how many companies rolled out a new billion-dollar brand last year? I don't have a clue what the answer to that is, but I know it's not many. And now we're looking to do more.

When our new Chief Merchandising Officer, Mark Tritton, came on board last summer, he challenged the team to take the learnings from Cat & Jack and go further. They've been looking at everything, all of our brands, and seeing where we have a lot of value and where we don't. They're talking to our guests to really understand what they want, and matching that up with where Target has a unique opportunity to stand out. Now, we are applying all of that in a really big way.

In the next two years, we will introduce more than a dozen new brands that Target guests will find only at Target. We'll touch more than $10 billion of current volume with the expectation that we'll accelerate growth within our most differentiated and profitable categories. And of course, our marketing team will bring them all to life in the magical way that only Target does.

Mark can give you plenty more color during Q&A. But I'll say that we're confident that we'll appeal to current guests and attract new ones. So much of what we offer will feel completely fresh and it will be grounded in what our guests expect from Target, while helping them discover new styles and trends we know they will love.

Our exclusive brands have always been a huge differentiator. They are part of Target's DNA. This investment shows our commitment to making sure what has always driven guests to Target, like our great product at an incredible value will only keep getting better.

As you’ve seen, nothing we’re doing is specific to a channel, stores or digital. Everything we’re building is a combination of the best of each channel, working together to provide a wholly seamless experience for our guests. We’re transforming stores to help support our digital growth. We’re building our supply chain to better – to enable better experience in-store and online, and we’re thinking about our assortment from every angle, so guests are inspired no matter how they shop.

Now, we recognize that given our current results, where we are today, simply isn’t good enough. And as we put in the work over the next few years, it’s going to be a difficult journey. The investments we’re making aren’t simple and they aren’t going to all pay off right away. But they are significant and they are ambitious, because we know that being successful requires playing the long game and that’s the game we fully expect to win.

Cathy Smith

John’s last point is spot on. Our current performance is not where we need it to be. So I want to start today with a progress report on the last couple of years, that will provide important context for where we are today. We have made significant progress on many of our strategies.

Signature categories have grown much faster than our overall sales, consistently gaining market share. Target’s digital performance has outpaced the industry, averaging 29% over the last two years. We’ve seen outstanding results in our new small formats, which generate much stronger sales productivity, healthy profit margins, and return on investment. We’ve started investing to transform our supply chain.

Two years ago, fewer than 150 stores were shipping directly to guests. Today that’s grown to more than 1,000 stores and counting. We’ve made changes to allow our team to focus on our core business in the United States with our decisions to exit Canada and sell our pharmacy business, and the team has done an outstanding job of controlling costs. We beat our goal to take out a combined $2 billion of SG&A and cost of goods these last two years. And when you look back at our bottom line results, it’s been a pretty good couple of years.

In 2014, we earned an adjusted EPS of $4.22. It grew to $5.01 in 2016. That amounts to an average annual growth of 9%. Over that same time period, we returned nearly $10 billion to our shareholders through dividends and share repurchase. That solid performance better than many others have seen. Despite that progress, we haven’t seen the growth we expected. On average, our comp sales have grown less than 1% over the last two years.

More importantly, instead of building momentum, we've been seeing a slowdown. Specifically, our comp sales and our traffic have moved from growth in 2015 to declines this last year. Given these results and the rapidly changing environment, we must evolve our business model faster. By investing more aggressively, we can create a growth engine that will drive consistent, sustainable and profitable growth and market share gains.

The good news, we're not starting from scratch. We've been investing in the right things. But it's clear, we need to pick up the pace and that will affect our financial model. As always, our first priority is to invest in our business with a long view. As we look ahead, we have a big opportunity to grow share in a world where others will be scaling back. Today, you've heard in detail about the investments we're making to transform all aspects of our business including our digital capabilities, small formats, existing stores, supply chain, exclusive brands, and core capabilities like data and analytics.

To support these changes, we're planning to invest more than $2 billion of capital in 2017 and more than $7 billion over the next three years. In addition, we will invest about $1 billion of our operating profits this year. This will position us for faster growth over time. Our investments will include enhancing store service. We know it's critically important to provide a distinctive service in a world where consumers have more choices than ever.

We'll also see continued cost pressure from the rapid shift to digital. We will invest to develop and launch new brands with marketing support to make sure that they are top of mind for our consumers. And finally, we'll make gross margin investments to ensure we are always competitively priced everywhere and every day.

Unlike the last couple of years, we don't expect the margin headwinds and tailwinds to balance out this year. As we all know, we could make changes to maintain our margins through this transition. We could cut store service and cleanliness standards. We could pull back on marketing. We could stop investing in brands and cut back on their quality, and we could stop investing in our stores. Those changes would help our P&L in the short term, but they are absolutely the wrong long-term decisions.

Of course, we will continue to reduce costs on those non-critical efforts, but the right path is to invest in lower margins. This will allow us to grow and gain market share in the future. Target is in a really unique position. We have a strong balance sheet and robust cash generation, both provide us the flexibility to evolve our business model rapidly. In addition to our assets, we are well-positioned for this change.

First, consider our team, which has always been our greatest asset. We have long focused on hiring, training and retaining a store team that can provide a welcoming experience for our guests. And our team is already well-known for their guest service and fast checkout.

So today, as we take our new store experience to a higher level, our team is ready and excited to do more. We'll continue to give them new tools and empower them to manage their local businesses. Beyond our team, our unique assortment has always been an asset. It gives us the flexibility to present and curate all that our guests desire. And finally, consider our stores. They are more than 1,800 strong and a key competitive advantage. They're mostly off mall, they are very close to consumers, and they universally generate cash.

I want to pause here and talk about why our stores are so strong, especially at a time when others may not be so fortunate. We have long applied a rigorous process to decide where to build our stores, and we have an equally rigorous process to decide when it's time to close them. Every year we conduct a close-continue analysis on the entire store base, individually for each location. As a result, we have closed hundreds of locations over time. The key is discipline. It's the reason we have a very healthy portfolio of stores.

Looking ahead, our stores will still be the center of our business. But their roles will evolve. Within our smart network, stores will fulfill many roles. In addition to serving as a place where guests can shop in return they will also be a digital hub. They will provide online order pickup and deliver directly to guests, and importantly, they will continue to offer genuine human interaction and engage in their local communities.

As we navigate this transition, we'll continue to apply a disciplined returns-based approach to all of our investments. At the highest level, we are focused on sales growth with a relatively stable base of invested capital. We're focused on growing sales in all channels by transforming our assets, both our distribution centers and our stores. In addition, we will look for ways to streamline our asset base as our business evolves.

For example, as we increase the speed of our supply chain, we have a significant opportunity to reduce inventory without hurting our in-stocks. In the last two quarters, you've seen the early signs of this trend. But we have a lot of opportunity to take inventory out of our network.

And finally, I want to emphasize that our priorities for capital deployment remain the same as they've been for many years. First, we invest in our business with a long-term view. Second, we support our dividend. This year, we are on track to deliver our 46th straight year of annual dividend growth. And finally, we engage in share repurchase when we have excess cash beyond those first two uses.

We will manage our repurchase program within the limits of our credit rating. We may have some capacity during this transition period. But we won't be close to last year's pace, given the changes to our financial model. As I mentioned earlier, our strong balance sheet is providing valuable flexibility, especially during this key inflection point in our history. Looking ahead, maintaining this flexibility will be essential.

Now, let's turn briefly to our 2017 expectations, which were included in this morning's press release. At a high level, our guidance reflects a prudent view based on current trends and what we need to accomplish. Let's start with sales. We're planning for a low single-digit decline in comp sales this year. While this may not – while this is not where we want to be, we believe it's prudent based on a couple of key factors.

First, it reflects strong digital growth that has not fully offset declines in our stores. And it reflects the view that our investments will not have an immediate impact on our near-term performance. As I've said many times, we stand ready to chase stronger comps when we have the opportunity. In the meantime, we will plan our business prudently.

On the EBIT line, this year we are planning to generate about $1 billion less than last year. This reduction reflects investments in enhanced store service, the continued shift into digital, support to develop, launch and market new exclusive brands, gross margin investment to ensure we are competitively priced, and additional D&A from investments in existing stores.

Now, I will give you some insights in how this will play out in our P&L this year. About half of the $1 billion investment will be on the SG&A line. Approximately $400 million will be on the gross margin line and the remaining pressure will be in D&A. Obviously, D&A is a non-cash expense, but this pressure will show up in the P&L. Altogether, we're planning for GAAP and adjusted EPS of $3.80 to $4.20. We know this is a meaningful departure from both our prior performance and expectations. But this change is essential to position our business for faster growth.

Now, let's turn briefly to our expectations for the first quarter. In February, we faced a challenging and choppy environment. We saw some improving trends near the and of the month. While that's encouraging, we believe it's prudent to plan for challenging trends to continue for the rest of the quarter.

As a result, we are planning for a low to mid-single-digit comp decline in the first quarter. This is the softest quarter comp that we are planning for the whole year. As a reminder, we are comping over our strongest quarter last year and our full-year outlook includes the benefit of store remodels and brand launches.

On the EBIT line, we are planning for a decline of about $400 million from last year. The majority of this decline will be on the gross margin line. Altogether, we're planning for both GAAP and adjusted EPS of $0.80 to $1. I know the magnitude of this change to our outlook is unexpected, but we must make these changes to position our business for the long-term.

Brian began the day by outlining the seismic shift we are seeing in the consumer and retail landscape. Our leadership team has spent a great deal of time studying what this shift means for Target. Because of that analysis, we are confident this is the right path forward. We're fortunate to have tested, prepared, and built a foundation over the last couple of years. Now it's time to accelerate the transformation of our business model.

Our goal today has been to clearly show you where we are investing in that new model. We are building a smart network that's more agile and reliable than ever before. A network that will be equally capable of inspiring and fulfilling physical and digital shopping. We are investing in stores that will look different and function differently than they do today. We are completely transforming our supply chain, becoming meaningful faster, more efficient and more accurate. And finally, we are delivering an even stronger portfolio of exclusive brands.

So now, before turn it back over to Brian, I want to spend a minute talking about what makes our approach different. We anticipate a lot of disruption in the retail landscape. We want to position ourselves to gain share as those changes occur. We've seen a lot of stories this year, you've seen a lot of stories this year. Retailers are closing stores and closing businesses across the country.

We are positioning our sales to play offense. We are going after that share market by market, but it's going to be a little noisy in the near-term. So at a time when many others are shrinking, we are investing. We are investing in two pillars of growth, our stores as multi-purpose assets within a smart network, and our digital capabilities as we continue to gain share in e-commerce.

Unlike the past, we are not providing explicit guidance beyond this year. I understand you have a desire for us to provide detailed longer-term guidance. However, given the amount of uncertainty we are facing, providing multi-year guidance would be a case of false precision. And given the transition we're planning, we believe it's important to focus on the company we will become.

With the investments we're making, we will be best positioned to deliver positive in-store comp sales and a rapid and profitable growing digital channel, stable to growing enterprise profit margins, continued strong cash flow, and the ability to return capital to shareholders, and superior ROIC over time. But let me be clear, this will be a multi-phase, multi-year journey. This year will be an investment phase, we'll move to lower margins to enable faster growth in the future.

Beyond this year, we will continue into a transition phase. We will invest capital to transform our supply chain, digital capabilities, new stores and existing stores. As we move past the transition, our new business and financial model will stabilize. And we'll deliver sustainable, reliable growth over time.

During the entire transition period, we will commit to transparency. Insights on our investments will serve as leading indicators of our future performance. Digital growth and the role of stores in fulfilling that demand, our pace of opening new stores with continued insight on their performance. Investments in existing stores and how those stores respond to those investments. Insight on how we are reducing delivery times and removing inventory from our supply chain. And finally, timing of new brand launches and how those brands perform.

Our company was founded over 100 years ago, and the first Target store opened more than 50 years ago. We are investing to position this company for success over the next 50 years. That's what we mean when we say we are taking the long view. Thank you.

Brian Cornell

Well, thank you, Cathy. So I know we've covered a lot of ground this morning, but I'd like to build on what Cathy just said. Target has been a great American retailer for more than 50 years. But our roots stretch back even further than that.

As many of you know, our company started out as Dayton's Dry Goods, just around the turn of the last century. That business evolved into a prominent chain of department stores, which led to a string of retail firsts, including the first indoor shopping mall, the first discount mass retailer. And later, the acquisition of Mervyns and Marshall Field. You know the story from there. Evolution is in our blood. And out of every period of disruption, our company has always forged ahead into the next era.

So when you think about what's in front of us, the seismic shift in consumer behavior that's disrupting our industry, we're doing what we've always done. We're taking the long view, investing to compete, investing to grow, and we have the financial strength and the resources to build a new company. One that's poised to lead, positioned to win in this next-generation of retail. So look ahead three years from now.

We talked about what we will deliver, new stores, new formats, more than a dozen new brands, a coast-to-coast smart network enabled by new digital capabilities. To our guests, the entire experience will look and feel like a completely new Target. While many of our competitors are cutting costs and just trying to survive, we are doubling down. We know there will be meaningful opportunities to capture additional market share now and in the long-term.

So we're aggressively deploying capital to expand our reach, reimagine our physical stores, and transform our supply chain. We are investing in margin to accelerate and unlock even greater digital growth. We are investing in price to ensure, we're competitive across our assortment every day, both online and in-store. And we're investing in speed to move faster than we ever have before.

This is the plan that will produce the Target of the future. This is the plan that puts Target back on the path to profitable growth. This is the plan that will create shareholder value and deliver guest love and loyalty for many, many years to come.

So I want to close by thanking you for joining us this morning. And now I'm going to invite John and Cathy, as well as Mike Tritton, our Chief Merchant, and Mike McNamara, our Chief Digital and Information Officer to join me onstage, so we can spend time taking your questions.

We've got lots of mics, we've got lots of time. So we'll try to work our way around the room. If you could, introduce yourselves this morning, I would appreciate that and we're happy to take your questions. So why don't we start right up front.

Question-and-Answer Session

Q - Christopher Horvers

Thanks. Good morning. Chris Horvers with JPMorgan, thanks for having the meeting. Trying to dig a little bit into the gross margin pressure understand in the first quarter you're going to have some pressure from markdowns and clearance. But then over the balance of the year some channel shift pressure, as well as price investments. Can you talk about the latter, what you’re expecting in terms of gross margin pressure from the digital and pricing pressures?

Will pricing largely be a reset in 2017, and then we sort of neutralize from there, and is it your expectation over time that the supply chain improvements ultimately stabilize the gross margin and is that 2018 event? Thanks.

Brian Cornell

Yes, Chris, let me talk about the pricing investments we are making. And I think as most of you know, coming out of the data breach, we invested heavily in promotions. As we go forward, we’re going back to our roots and reestablishing our everyday low-price commitment, so that’s going to take some time. It’s starting today. We’re going to make sure, we reestablish our value with the guests.

So there’s an investment we have to make. And we also recognize we have to continue to invest in digital to grow that channel to continue to make sure we are accelerating market share. So you are going to see us invest in 2017.

As John talked about, we expect greater efficiencies over time. One, as we continue to optimize our digital performance, but importantly, as we transform our supply chain. But in the short-term, we have to compete. We have to invest to make sure, we’re delivering the value the guest is looking for. We want to make sure, we’re taking market share, both in-store and online, and we think those are two very important investments in the near-term that provide long-term benefits for the company.

Michael Lasser

Hi, it’s Michael Lasser from UBS.

Brian Cornell

Thank you.

Michael Lasser

Thanks, Brian. I think the key question is, we all appreciate that you don’t want to provide long-term guidance. But how long are you anticipating it’s going to take for you to see a return on all the investments that you’re making? Is it reasonable to expect that you’re going to return to earnings growth in 2018, 2019? When should we expect that?

Brian Cornell

I’ll go back to my what Cathy talked about a few minutes ago. We certainly view 2017 as a year of investment. In 2018, we’ll continue to transition as these different initiatives begin to mature. As we get into 2019 and beyond, we certainly expect stability and a return to growth.

So that’s the model we’re looking at. We can’t laid out for you quarter-by-quarter. We want to make sure, we’re properly investing and accelerating these initiatives. And if there’s a message I want everyone to walk away with today, these aren’t new initiatives. We’ve been working on these for several years.

Now it’s time for us to go faster. And this is about accelerating at the right place for our business. But whether it’s our digital channel, the work John talked about in the supply chain, the acceleration of remodeling our existing stores and reimagining that experience, or opening up these new smaller formats, we’ve got to step on the accelerator. And as they mature, we’re going to return to growth. We’re going to capture market share, and we’re certainly going to see the benefits that our shareholders are looking for. Craig?

Craig Johnson

Craig Johnson with Customer Growth Partners. Brian, I understand the importance and necessity of the reset you talked about doing here today. I want to look forward to how do you get back to growth and one pillar of growth is, of course, traffic growth, hallmark of all great retailers is consistent traffic growth and you showed two of them earlier, Costco and TJX [indiscernible] and Home Depot. The question is, could you get more granular on how you can actually rebuild share of trip missions as a way of getting share traffic?

Brian Cornell

Craig, it’s a great question, and it’s embedded in everything we talked about today. So the reinvestment in our stores, reimagining over the next few years hundreds of hundreds of stores. We certainly learn in our test in both Los Angeles, as we’ve remodeled stores in Texas that as we bring in new experience that drives traffic to our stores.

As Mark and his team continue to roll out these new proprietary brands that are unique to Target, that drives traffic to both our stores and our site. And we’ve seen that with Cat & Jack, a billion-dollar brand in year one on its way to being the number one kids brand in America. So as we continue to elevate brands, those drive traffic to both our stores and our site. As we move into our new urban neighborhoods, it’s striving for traffic every single day.

So and as we think about how this smart network comes together, brands play an important role that in-store experience is critically important being in the right neighborhoods, but then we also know from a digital standpoint more and more of our guests are ordering online and conveniently coming to our stores to pick up that order. That allows us to really make sure that once they're in our store, they continue to shop.

So all of these elements are all about driving traffic to our stores and more visits to our site. And as they mature, that's certainly going to be one of the key metrics that we will all be tracking.

Robert Ohmes

Hi, Brian, Robby Ohmes with Bank of America Merrill Lynch. As a follow-up to that question, can we get you guys to talk a little bit more about the category outlooks. So how you're thinking about price investments in terms of food and consumables versus apparel and electronics, et cetera? And also for the new brands maybe some more insight, what categories you are thinking about launching some of these 12 new brands? And just a quick for Cathy, I guess, I might have missed if I didn't understand, are you – you've been disciplined about store closings, but is there a change in your pace of store closings? Thanks.

Brian Cornell

Yes, good. So let me start with price let Mark talk about brands and Cathy can talk about our real estate portfolio. And I think you answered the question for us. As we think about the investments we're making in price, we'll start with those core essential and food categories, those strip drivers that Craig just referred to. We've got to make sure that we move from a promotional cadence back to our traditional every day low price and great value every time the guest shops in those core personal care, household essential and food categories.

We'll certainly make sure, we're revisiting price across the box. But it certainly starts with making sure, we are priced right on those trip driving items that our guest depend on Target for every day. Mark, why don't you talk about some of the brand work.

Mark Tritton

Yes. As we rolled out the new brand work, we've been – we're looking at guest insights about what brands and what spices we should play in. But more importantly, what is the sweet spot on pricing for regular everyday pricing. So as we reset these brands, we're going to be defining great value every day for our guests as we introduce in every niche in the business

Cathy Smith

Robby, I'll quickly address store portfolio. As we said, we've had a very disciplined process for – however, the team has done a great job. And so our pace doesn't change. We've been closing about 10 to 15 source a year, that's been consistent year-in and year-out, we'll continue to do that. But that just normal course for us. We look at every store every year and say does it make sense to keep open. And today, the answer is yes, universally generate positive cash

Brian Cornell

Yes. Cathy, on the store front just to close that out. And I know we talked about it during our prepared remarks, but our store portfolio is not mall-based.

Cathy Smith

Yes.

Brian Cornell

We're in some of the centers, where most of the retailers are trying to migrate to. So we're very fortunate that over time we built 1,800 stores that are effectively located, that are in the right neighborhoods, that are not off remotely on interstates. They're not tied to dying malls.

So we have an obligation to revitalize in those stores and reimage those stores. But one of the things that we're most confident about is, we have an exceptional store portfolio. So as we invest, as we bring those stores up to the expectation our guest has for Target, we expect those to drive traffic and continue to flourish in the years to come.

Matthew McClintock

Hi. Yes, Matt McClintock from Barclays. So clearly, the store today is about investment, right? You need to make substantial investments. And as I look back at the past two years, you've fallen shy of your capital plan by s significant amount, right?. So as I look forward, one, can you help me understand where the shortfall to the capital plan was this past year?

Two, would you attribute some of the weakness today that you're seeing to some of the lack of investment or shortfall to your capital plans?

And then three, is the $2 billion enough for 2017, given that it falls to the low-end of your prior long-term guidance of $2 billion to $2.5 billion?

Brian Cornell

Matt, I'd start out by talking about the last couple of years as being a time of very disciplined capital allocation. We've taken a very surgical approach to some of these initiatives. We've remodeled 25 stores in Los Angeles. We've been testing and learning and iterating and improving the expectation that the guest has, making sure we deliver against that. Now that we've gotten the feedback, we're ready to accelerate.

John talked about, we opened up 32 small formats, not 300. We study each one of those very carefully to make sure we understood how to customize them for new local neighborhoods. Now that we understand the expectation we are ready to accelerate. From a capital standpoint, we actually benefited from the fact that Mike has taken a very disciplined approach to setting priorities within technology and we've seen phenomenal improvement in our platforms, our capabilities at a lower cost.

So our approach to capital has been very disciplined. We've been testing and validating and learning. Now that the learning is complete, we are ready to accelerate those investments. But we have been very disciplined. John talked about supply chain. We know the changes that we need to make, but we have been very surgical, very disciplined and putting together that playbook. Now that it's in place, we'll begin to accelerate.

So from a capital standpoint, we'll continue to make sure, we're very thorough. We test and validate. But once we've completed the learning, we'll be ready to accelerate and that's what you're seeing as we think about the next three years.

Peter Benedict

Peter Benedict with Robert Baird. I was hoping you could maybe speak a little bit more detail about the view of grocery that's out of the stores, how is that going to look and reimagine store? And then, Cathy, maybe a little view as to how much it costs to do the remodels and how long it takes? Thanks.

Brian Cornell

Yes. Why don't I start and I will let Mark talk about some of the progress we've seen on grocery. And while we didn't spend a lot of time on it today, I want to make sure it's very clear. We're very focused on improving our grocery performance. But we haven't just been standing still. We've made significant progress in procurement, in supply chain, in making sure we've improved our assortment, in making sure in those test stores in Los Angeles and Dallas, we understand the changes that need to be made in the in-store experience.

We're going to follow it up immediately with the right investment in pricing to make sure we are competitively priced every day in those key categories. So we've got more work to do. We're certainly not satisfied with where we are. But we have been making some progress and there's bright spots, Mark, that I think you can talk to.

Mark Tritton

Yes, just looking at the format, fresh produce is a really good example. We've changed our supply chain, our assortment, and are focused on quality and value. So investing there has really made a different where the guest has really perceived and responded to with great quality in key categories. So here we've invested in fresh and we've gone from an organization that used to deliver multi-times a week to every single day increasing the freshness and quality and guests are responding.

Some of the tests that Brian talked about in LA and Dallas have really paid dividends for us. And one great example of that is the our adult beverage business, where we've seen great quality in 2016, and we're going to amplify that growth and accelerate in 2017. This is a business that for us was a number one growth category throughout all Target and we see an upside of $1 billion business here that we're fast tracking on in 2017.

Joseph Feldman

Joe Feldman, Telsey Advisory Group, we're in the back, sorry. I wanted to follow-up on that. Can you talk a little bit on the merchandising side areas of the store that maybe expanding or contracting, and then a little more specifically about those dozen brands that you're going to be adding in. What categories with those be in and what are the – any preview you can give us and how to think about that?

Brian Cornell

Mark?

Mark Tritton

Yes, so the key focus of the brand growth is really and what we talked about with John in our key strength there is apparel accessories, footwear and home. So there's a high margin and high strength areas for us. And we believe that Target has a right DNA on exclusivity and differentiation. I guess, love our brands and have loved them. But we've been a little slow here in terms of the changing place of the guest. And I guess, inside store that we could sharpen that and bring you new ideas.

Great proof-of-concept in 2016 with the launch of who, what, where, Pillowfort and of course, Cat & Jack. This showed us where we were placed at strengths with a new focus and we could create double-digit comps and guests love and trips for our store. So we've taken key areas across men's women's, home and kids and I'm going to amplify our office there and redefine.

In terms of overall space, we're just utilizing our existing space and really refreshing that. So one of the things we're excited about in 2017, this combination of new brands, capital investment in the space for those brands, but also the addition of extra resources like visual merchandising. They're really going to create a new experience for the guest in-store and create real excitement.

Mark Miller

All right. Thank you. Mark Miller with Crystal Rock Capital. You talked earlier about making price investments across essentials. I wanted to ask what do you think is the risk that you've taken too much margin on exclusive items, UPT has come down, but average ticket has gone up with price per item. So I thought also it maybe helpful if you could share market research on the customer's perception and value on exclusives now versus several years ago? Thanks.

Brian Cornell

Yes, why don't I start. And I think the proof is in the results we've delivered. Outstanding results, as we talked about with the launch of Pillowfort. The same thing has been very true with Cat & Jack. So I think this is an example where we've got the value equation right. Great quality, on trend at a great value and the guest response has been terrific. So that's the same approach Mark is going to take with each one of those new brands making sure, we combined great quality items that are on trend for the consumer with the right value that drives trips, but also make sure that the guest recognizes, they are getting great value from Target. So coming back to our brand promise, we expect more and pay less. Those elements have to work hand-in-hand with our new brands going forward.

Kate McShane

Hi, Kate McShane on Citi Investment Research. I have two unrelated questions today, one, a short-term question and one, a longer-term question. With regards to your guidance for the year, I'm wondering how much in terms of your competitor to work closer are in your assumptions for guidance?

And second on the longer-term question for supply chain, just curious it was a year ago that you walked us through some of the changes in your supply chain. I'm just wondering how much the game has changed since the last time we have heard about that strategy and how you're approaching the last mile?

Brian Cornell

John, do you want to start with supply chain and I'll finish up with guidance.

John Mulligan

Sure. I think the past year we spent doing really two things in supply chain. One was just optimizing what we do today to improve out of stock in-store, which have been a chronic problem for us. They have improved dramatically. They're not where they need to be, but they have improved.

The second thing we focused on is right to the heart of your second – your question, which is had we optimize the entirety of our supply chain, go back and relook at everything to one, take work out of the store and two, be much more efficient in how we deliver and especially on the last mile.

We spent the last couple of years expanding our ship from store capability. We have believed for a long time that it's the single best advantage we have in the supply chain is our store network. It puts us right next to the guest. And what we're working on today is, how we move inventory more efficiently and more quickly in each is, because that is what is required for direct to guest out to the stores and then from the store directly to the guest and do that quickly.

You will see us this year, they said start to make those changes in the Northeast. Several pilots are already underway that have been significantly improved our speed to guest. And as I said, we'll – as Cathy said, we'll continue to come back and report on how we're doing. But that is the heart of what we're doing. That becomes the basis for improving everything Mike can do is giving him flexibility to put services on top and to deliver at whatever speed the guest wants and the store like to back up, that could be today.

Hey, I came in picked up my five things, I'm going to go run some errands with the kids, deliver those to my house in three hours. It could also mean, hey, bring this to my house in 10 days, this patio set, bring it to the back of my house, set it up and do trash it and take the garbage away. So it's really about flexibility and speed allowing the guest to choose how they want to interact with us, and that's what we're building the platform of our supply chain around.

John Mulligan

Maybe why don't I start by talking about the competitive landscape and what Cathy talked about the guidance. But to your point, we certainly see over the next few years significant market share opportunities, as we see the contraction in our competitive store base. And that's going to be particularly true in the apparel and home spaces, where we're strongest. But we also recognize as you do, as many retailers are closing stores, if not exiting the business. The short-term implication is massive promotional discounts, which takes consumers out of the marketplace for a period of time.

So over the long haul, this is a growth story we're putting together. We think we are going to see significant market share opportunities across a number of categories. To capture that, we need to make sure we've got the right in-store experience and a very strong and easy digital experience for that guest. But in the near-term, you're going to see deep discounting. You're going to see liquidation sales, which takes prices down and takes consumer trips out of the marketplace. But over time, we see significant market share opportunities.

Cathy Smith

Yes, the only thing I would add on to that, because that's where I was going to go to is we are absolutely investing to be able to play offense. We see this as a huge opportunity for Target when you think about the Plainfield that's going to be available. And so we are investing to play offense. But I don't anticipate and we don't anticipate that to be demonstrably changing this year. This year is an investment year for us, as we set ourselves up for that great success to take the share over the next multiple years. There's going to be a ton of disruption in the space.

Daniel Binder

Okay. Dan Binder with Jefferies. I had a few questions. First, there has been a few questions on food today, I'm curious as you think about the role of food and at your competitors, it's been used as a traffic driver. Today, we're not really hearing that from you, you're – we're hearing more about remodels and brands outside. So can you just talk a little bit about why you think food shouldn't be the traffic driver for you and why you shouldn't be reallocating space away from dying categories to expand the food assortment?

And my second question is, can you make money online longer-term? And why doesn't the marketplace makes sense for you as a – particularly, as a source of fee income to offset and maybe some of the pressure in your own business?

Brian Cornell

So why don't I start by talking about food and let Mark add some additional color and then give Mike a chance to talk about our digital approach going forward. One of the things that we've talked about over the last year, as it pertains to Target's food and beverage offering is the recognition that we don't have a full service grocery experience. We don't have meat and seafood counters. We don't have deli counters. We don't provide a full assortment of experiences and services that many of our full-line competitors do.

But we can offer a great self-service convenient experience. And that starts with the right quality, the right assortment, the right in-store experience, great value, we've got to make sure we are supplying those products to our guests every single day to make sure the freshness is there.

So we are embracing who we are. And we want to make sure the guest knows that while they are shopping at Target, there's no compromise. We've got to build trust. We've got to make sure that while they are there shopping for their baby, picking up a toy for a Saturday night birthday party, picking up something new to wear for dinner that night, they have confidence in the selection and breath of food products we offer.

So we're being treated who we are and we're not a full service grocery. We don't have rotisserie ovens in our stores. But we do have the right allocation of space and selection to compete in the – that convenient alternative in food and we're going to build on that going forward.

We're very pleased with the response we've seen in Los Angeles in Dallas, where we enhanced that experience, where we improved the assortment. The reaction, as Mark talked about to categories like craft beer and wine, that fit in very well with the Target guest. So we've got to strengthen that offering, make sure we've got great quality, the right assortment, that we've got the right experience in-store, and that we provide the right value the guest is looking for.

So we'll continue to build off of that going forward and make sure that while our guests are shopping Target, there also shopping our food and beverage offering.

Mark Tritton

Yes, I think I spice to say, but not talking about flipping or divesting or investing more spice, how we utilize the spice more definitively. And I think that what we've learned in these test markets is the role of fresh and convenience in creating trips and creating guest royalty has been very powerful. So reformatting the space and really curating the assortment is more of what we're focused on rather than whole sort of changes to macro space.

Brian Cornell

Mike, why don't you talk about where we are with digital?

Michael McNamara

Sure.

Brian Cornell

We spent very little time talking about our performance in 2016. We felt great about how we exited the year, comps up 34%, making really good progress. Mike, we doubled the business in the last couple of years. So why don't you talk about where we are and where we're going.

Michael McNamara

Look, I think particularly in the last year the – our focus has been on guest experience and coming – making a great guest experience. And while some of those investments may not have been obvious, they have pay dividends. We grew the business at almost twice the rate of the market last year. John talked about earlier how we expanded our ship from store capability, which has been really, really important to us.

We shipped about 1 million parcels to our guests in the two days following Cyber Monday. And that's really important, because that is our cheapest route to the guest at home is shipping from our stores. And as we can expand that model, we can be closer to our guests physically and in time and we have the lead time during the holiday period to guest as well.

So all of those investments have improved the guest experience. We've almost doubled our guest satisfaction rating over the course of the year whilst we grew the business at twice the rate of the market. And we see that again going into this year. So there will be a relentless focus on the guest experience going forward. All the work that John and his team are doing to reconfigure our supply chain will give us a lead time advantage and a cost advantage as we deliver more and more parcels to our guest store – to our guest stores.

The work that Mark is doing on assortment and creating exclusive product, exclusive brand for Target that isn't available anywhere else will be vital to our online merchandising going forward. We will always look at other ways maybe of how we would expand our assortment online. But right now, we've got our sites fairly firmly focused on how we can get to guess quicker, how we can exclude flawlessly, and how we can bring exclusive brand and product to our guests.

Brian Cornell

Right up front.

Bryan Cameron

Good morning. This is Bryan Cameron, Dodge & Cox. Thank you for your presentation this morning. With all the seismic shifts that are going on in retail as you outlined and I'm guessing you've considered other strategic alternatives to the once you outlined this morning, what were some of those alternatives and why is when you outline you think the best for the company going forward?

Brian Cornell

Bryan, we spent a lot of time as a leadership team looking at different alternatives. There was only one path forward and that's the path we've chosen. We've got to invest to grow. We've got to reimagine our stores. We've got to enter new neighborhoods as we're doing with these small formats. We've got to transform our supply chain. We have to build out the digital capabilities required in this environment. We have to continue to elevate our proprietary brands. And I think most importantly, we just have to embrace the realities of this new era of retailing and make sure that we also embrace the way consumers are shopping today.

So we certainly debated whether there are other options. Every time we came to the table, there was only one conclusion and it's a path we've chosen to follow. We think this is the right path for our company, the right path for our shareholders, and ultimately it's a path back to growth and an expansion to market share. So we've done our homework. We've looked at this from every different angle. This was the path we kept coming back to. It's the right path for the company today. It will be the right path for the company 10 years from now.

Greg Gregory

Hi, it's Greg Melich with Evercore ISI. Three questions, I'll make them quick into one. Cathy, does the guidance for this year assume the comps term positive by the fourth quarter?

Second, is on CapEx. When we look at that $7 billion budget over the next three years, if you could break that down into existing stores, new stores, supply chain and give us a sense of where the money is actually going?

And then lastly and maybe, I don't know who this is for, but for everyone, I guess, Brian, what will you be watching to know that this is working. So that basically we want to double down, or not, or the go the other way towards the end of the year. Specifically, there's an interesting comment you made that our cheapest way to fulfill his through the store. I would love just to hear – that sort of shocks me, given what we're seeing Amazon do and others. So just why is that true for Target and maybe not true for some of the others?

Brian Cornell

Yes. Greg, why don't I start with the metrics the things we're going to be watching closest. And it's going to come back to – we're going to watch the guest, as the guest respond when we reimagine a store. How do they respond when we move into new neighborhoods? How do they respond to our new digital offerings. How do they respond as we roll out new brands?

So ultimately, that guest satisfaction and I guess both is the most important one. And when they are in our stores more frequently and visiting our site more frequently and shopping with Target versus other retailers, we know we are winning. But we're going to clearly monitor the guest reaction, as we remodeled these next hundred stores in 2017, and we continue to accelerate with another 30 small formats.

And as Mark introduces new brands throughout 2017 and Mike enhances our digital offering, it's going to come back to the guest reaction. And we are fighting for footsteps, we're fighting for clicks online and we're fighting for a share of mine. So for this to be a growth story, it is all about gaining market share and that starts with building greater trust, greater loyalty with our guest. So we will be watching that each and every day across these initiatives we've laid out today.

Cathy Smith

Yes. So, Brian, maybe I can address the other two questions, Greg. This is a multi-phase, multi-year journey. And so and we try to make sure we set that expectation, we are recognizing that the environment is going to be disruptive. And we've got a ton of work still to do although we're not starting from scratch. We're going to accelerate that pace and that investments.

And so we are not and we guided that in our guidance, planning for anything, but low single-digit negative declines this year. And that's what we said it's an investment year as we move into transition and we will get into stability where we can sustainably consistently drive profitable growth and market share gains. And so I want to make sure we do set that expectation appropriately.

On your question with regards to how the capital allocation is being spent over the $7 billion investment over the next three years, it's really in the three areas that Brian just talked about, it's the three big areas, the biggest one is being obviously as we reimagine our stores as they will still be central to our story, their roles will evolve, but they will be significant investments there as well as the new stores, supply chain and digital, and that's exactly where you would expect us to be spending that money.

Brian Cornell

Yes. Mike, why don't we come back to the shipping question?

Michael McNamara

Yes. I mean, the reality is that in the digital business, one of your biggest cost, biggest marginal cost is transportation, and it is cheaper for us to drive, or to deliver from our stores, which are, as we said, about 10 miles and 75% of the population. So that last leg being very shorter, makes it our cheapest option. The marginal cost of us getting product to the stores on the back of our existing network that already to the distribution center is already out there is very, very low for us indeed. So the additional cost on that last mile is very low. We also have, of course, order pickup, which is probably our most economic fulfillment channel.

Brian Cornell

Okay. Why don't we – Oliver has been very patient waiting here, your arm, why don't we see if we can get him a microphone.

Oliver Chen

Thank you very much. Oliver Chen, Cowen and Company. I have a question related to the topic of fill-in versus stock up tactically in terms of what you're thinking about the future of fill-in and the opportunity there?

And longer-term, as you do your consumer insights on millennials and generation Z, what do you think the five-year story is for reimagining the store as you think about what the newest customers really want to see with disruption in transformation?

And finally, on the topic of Big Data and data sciences, how does that interplay with how we should think about the model over the longer-term, and what does that mean for what consumers want versus where you can deliver data science, where it be supply chain, omni-channel, or predictive analytics giving people something they don't even know they want? Thank you.

Brian Cornell

Oliver, let's try to unpack those questions. Let me start with the last one, as we think about the role of data science and analytics. And I made the comment that three years ago this was a nascent capability for us. It's now quickly become one of the strength of the company. And we're applying that across all of our various functions. It's helping Mark and his merchant team make better choices. It's certainly enabling some of the work that John is leading from a supply chain standpoint. It's influencing how we lead and manage our stores. And Mike can talk about the important role it plays as we think about digital and the personalization of our communication.

So data science is going to play an important role across all of our functions going forward to make the company focused on the right decisions, smarter decisions, more personalized decisions. And Mike, why don't you talk about the role that has played just recently, as we think about digital and how we're interfacing with the guest?

Michael McNamara

Well, I think, as Brian said, this is an important – it's a very important growing area for us. I've been here – data sciences came out in Sunnyvale with over 40 PhDs who are doing nothing, but thinking of the clever ways to how we tune our supply chain and how we personalize the offer to our guests, particularly online. One recent improvement they've made is on some of the bottom recommendations that we gave on our homepage. And we've seen an eightfold improvement on conversion rate on that.

So we do know that as you make that experience and more relevance to the guests that we will improve our sales online, it will improve our conversion rates. That's just one example. And I've seen a lot of examples in John's area around how we are improving sales forecasting and our ordering algorithms, which has helped the flow of stock all the way through our supply chain.

Brian Cornell

Let me try to come back to your question around the consumer trends, the role of the millennial and how that takes shape over the next three to five years. And as we look at it today, I'll start with the investment we're making in our stores. And as we've looked at the outlook, as you've done the math, while we expect this continued accelerated shift to digital, stores are still going to be very important. And pick the number three years from now, the stores represent 85, or 80, or 75% of the business. I don't know?

But even if there are 75% of the business three to five years fro now, there's still the dominant portion. Again, what we know every time we talk to the consumer, every time we talk to the guest, they crave experience. Yet they're going to shop the physical store, they wanted to be a great experience. So we've seen the reaction to the changes we've made with visual merchandising.

Some of the things that Mark and his team are bringing to life every day in our stores in our apparel and home categories. We want to make sure it's a great experience. If they're using our stores as a smart pickup point, we need to make sure when they come to our stores, they are greeted by phenomenal team members who can quickly find their order and invite them to shop more often.

So we've got to make sure that the experience is critically important in our stores. We know going forward that millennial consumer that we serve, they are going to be digitally connected and their shopping experiences are likely always going to start with the digital device then they will choose whether they wanted deliver to their front door, they want to pick it up, or they just want to make sure they know where the products are placed inside of that Target store in their neighborhood.

So we've got to embrace the way consumers are shopping. But we recognize when they come to a physical store, they expect a great experience. When they shop online, they wanted to be really easy. When they come to pick up a product at one of our 1,800 stores, they've got to make sure the product is there. We've got the right items and we invite them to enjoy the convenience that we did the shopping for them, now they can take the next 20 minutes and explore the store and discover and enjoy the merchandise that we have to offer.

So physical stores will continue to be important. But we've got to reimagine the store experience. Today's millennial shopper doesn't enjoy shopping one of our tired stores that hasn't been touched in 10 years. But they love the reimagined stores and they give us that feedback as weak remodel stores in

Los Angeles and we reimagine stores in Dallas, whereas we open up new flex formats. The feedback we are receiving is sensational. And they use those flex formats, those smaller stores as places to fill in, but they're filling in two, three times a week.

So we are looking at it very carefully. But we know stores will be very important, but it's going to be part of our smart network, where we combined the digital experience, the store experience as one and make it really easy for the guest to connect with Target anytime they want, anyway they want in their local neighborhoods and towns.

Brandon Fletcher

Brandon Fletcher with Bernstein. We see your competitive advantage in assortment and service. So when you talk about new brands, we love it. When you talk about service online and create a ordering, matching online, awesome. Doing the picking from DCs for each as is genius, and I think only you and Home Depot are close there. The only place we get nervous is, when you say things about pricing convenience, I've sat across the way for many CEOs who are desperately trying to drive traffic with price investments when they were not below cost operator. And it just doesn't usually work. And if you're seeing debt in department stores and retailers in subscale groceries, where you guys are already way better on price, are you really sure you need to invest that heavily?

And then secondly, is with the roll outs to new projects touches in stores, will folks with disconfirming evidence have as much access to leadership as those with confirming evidence you guys have been extremely disciplined in the way you did LA 25, but it's hard to get right? So those are the two questions.

Brian Cornell

Let's go back to pricing. Let me make sure that we are really clear about what we're doing and why. And we spent a lot of time looking at the changes that we had made following the breach. And we were very promotional. And that promotional intensity has continued. As we go into 2017, you're going to see us get back to our roots, get back to establishing every day low pricing in those essential categories. There will be a transition period, but it's really going back to it's always worked for us in the past and moving away from that promotional intensity, the reliance on big promotions to making sure we give our guests the confidence and trust that every day they shop in our stores for those core essential items, they're getting a great value.

So it's a transition. There's an investment involved in that, but it's really getting back to us made as straight going in the past and really making sure that's part of what we bring going forward. So we'll continue to be very disciplined. As we talk about the question about capital allocation, we're still going to be a company that will continue to innovate, innovation is very important and innovation is alive and well at Target.

But we're going to make sure, we test, we learn, we validate, and the innovation has to benefit our core enterprise. It has to translate to driving more traffic to our stores, more trips to our site, greater guest loyalty and engagement. So innovation will be an important part of our future. We'll do it as we've done in the past in a very disciplined way. When things don't work, we'll shut them down. When we need to iterate, we will continue to iterate and learn. And when we validated the model, we'll step on the accelerator as we are right now and we'll move forward quickly. I guess, we've got time for one only last question. Why don't we go over here. Scott?

Scott Mushkin

Hey, thank you. Scott Mushkin from Wolfe Research. So I just wanted to ask a couple of questions. One is, just a clarification on the cost of the remodels, I don't think we actually got that number and I was wondering if we can get. I was hoping for an update on store execution specifically in-stock, I know that was a big focus?

And the final question would be around price investments. You have two large competitors driving down price most notably Walmart, but also Amazon is doing a lot of work with the subscriber save and those prices are very low. So what gives you the confidence that it's one in done here as it one of your largest competitors on a multi-year price lowering campaign? Thanks.

Brian Cornell

John, you want to start with stores and I will come back and talk about pricing.

John Mulligan

Yes, just check off really quick customer remodel for prototype, what we call, a P store $5.5 million a little less for more volume stores, little more for higher volume stores, super Target, what do you think Cathy about double?

Cathy Smith

Yes, they're little less than double.

John Mulligan

Little less than double. Store execution, I'd say two things about. One on out of stocks, we have a lot of progress. When we were talking about it last year, they had improved by about 40% last year, almost another 15% improvement. We've seen significant improvement in doing what we do today. The next LEAP in improvements in out-of-stocks and our stores will come from fundamentally changing the supply chain, which is what we talked about today. And so that's on course that we will keep working on and we'll update you as we go forward, I guess.

Brian Cornell

And so, I will finish by talking less about price and a lot more about value. We know we have to be competitively priced every day on those core essentials. But we win when we deliver a compelling value, which means a great in-store experience, which means new exciting brands, which means surrounding the guest with great team members, which means a great online experience that's easy and friction free.

So it can't be just about price. It has to be about value. And value is a combination of all the things we do and historically have done so well. So we want to make sure we surround the guest with a great in-store experience. The reaction we've seen as we brought visual merchandising and life in our stores has been fantastic. We've got to continue to build compelling brands that deliver great value for the guests. We've got to surround them with a great experience, whether they are picking up an item, or checking out on our stores, and that's got to translate to how we interface with the guests online.

So value is critically important. And we think we're positioned in a way that's unique in the industry, with our assortment, our in-store experience, our multi-category, portfolio, the capabilities we've now built online and the changes we're making in-store. That's what gives us too much confidence that we're on the path back to growth. That it will take time, but there's going to be significant market share opportunities in front of us.

And three years from now when we've reimagined stores and we are in new neighborhoods and we've rolled out new brands and we've added great new supply chain capability to complement what we've done from a digital standpoint, we will be sitting here talking about the new Target, a growth company that's captured market share in this new era of retailing.