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TGT.N - Q1 2026 Target Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation first quarter earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded Wednesday, May 20, 2026.

I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

John Hulbert - Target Corp - Vice President, Investor Relations

Good morning, everyone, and thank you for joining us on our first quarter 2026 earnings conference call. On the line with me today are Michael Fiddelke, Chief Executive Officer; Cara Sylvester, Chief Merchandising Officer; Lisa Roath, Chief Operating Officer; and Jim Lee, Chief Financial Officer.

In a few moments, Michael, Cara, Lisa, and Jim will provide their insights on our first quarter performance and outlook for the rest of the year. Following their remarks, we'll open the phone lines for a question-and-answer session. This morning, we're joined on this conference call by investors and others who will be listening to our comments via webcast. Following the call, Jim and I will be available to answer your follow-up questions.

And finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, including those described in this morning's earnings press release and in our most recently filed 10-K. Also in these remarks, we refer to non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted SG&A expenses. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, which is posted on our Investor Relations website.

With that, I'll turn it over to Michael to kick things off. Michael?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Thanks, John, and good morning, everyone. Just a few months ago, we shared our refreshed strategy and vision for Target at our financial community meeting here in Minneapolis. We outlined the priorities driving every decision we make, all in service of returning to sustainable growth because as I've said many times before, that's the only winning path in retail. For Target, that means leading with merchandising authority, elevating the guest experience, accelerating technology and strengthening our team and communities.

Delivering on our aspiration to be the most delightful shopping experience in retail means executing this strategy clearly and consistently. And to bring this strategy to life, I'm excited to be joined by and to introduce some incredible leaders to new roles at this critical juncture for Target.

I want to take a moment to welcome both Cara Sylvester, our Chief Merchandising Officer; and Lisa Roath, our Chief Operating Officer, to their first quarterly earnings call with nearly four decades of retail leadership between them and based on my experience and working closely with both Cara and Lisa for many of those years, I'm confident in the expertise and leadership they'll bring at a pivotal moment for Target.

Cara has led teams across digital, marketing, media, and loyalty and spent the bulk of her career in merchandising. As our sole Chief Merchandising Officer, she's bringing focus and a bias for action to strengthen the way we operate while aligning the team at the critical intersection of merchandising and experience.

Lisa has led many functions across the organization from marketing to merchandising and most recently, our food business that spans merchandising and end-to-end operations. With this breadth of experience, she is driving clarity while connecting across business functions in support of our strategy. And in a few minutes, Lisa will be sharing more about new leadership in her organization as well where we've welcomed Jeff England to Team Target, serving as our Chief Global Supply Chain and Logistics Officer. I'm excited for you to hear from both Cara and Lisa today.

Today, we're reporting first quarter results that are stronger than expected, early proof points that give us confidence we're on the right path. But to be clear, a single good quarter has never been our goal. Our goal is consistent long-term growth. So while we're very encouraged by our Q1 results, what you'll hear from me and the team today is our focus on continuing the work to reach our full potential as a company. That said, we know that long-term results are built one quarter at a time. So let's spend a minute unpacking our first quarter results and how they inform our thinking for the balance of the year.

First quarter net sales grew by 6.7%, reflecting a 5.6% increase in comparable sales. We're encouraged that this top line growth was broad-based with growth across both stores and digital channels led by traffic, net sales increases in all six of our core merchandise categories, broad-based strength across guest demographics and cohorts, and momentum around both key seasonal events and everyday moments.

Despite this early progress, we know our work is just beginning as we were lapping softer results in Q1 of 2025. And while we're pleased that this year's Q1 net sales were also 3.7% higher than in Q1 of 2024, that's well below the level of two-year growth we aspire to deliver over time.

In categories like Fun101, beauty and food and beverage, we're seeing mid-single-digit compound growth on a two-year basis, while sales in home and apparel were still below 2024. This is further evidence that while we're building momentum, we're also not yet where we aspire to be over time.

We're focused on executing our plans and are encouraged by early guest response. As we look ahead, we also acknowledge that the broader operating environment remains uncertain. You'll hear more detail from Cara, Lisa, and Jim shortly on how we're managing through these considerations while continuing to make progress against our goals. But the punchline is, we're planning for the balance of the year,

clear eyed on what is needed to execute our plans to continue to make progress against our strategy. Before I hand the call over to Cara, I want to stress a few points.

First, we're writing a new chapter for Target, defined by disciplined choices and a clear articulation of our unique role in retail. And on this front, we see encouraging early signs that our plans are resonating with our guests.

Second, we will not confuse this progress with potential. Our focus is on delivering consistent growth, not just in 2026, but for decades to come. That means continuing to invest in our business, our team and the communities in which we operate, so we can deliver growth in 2027 and beyond.

Third, while we have momentum, we're also being cautious about the near-term operating environment, with consumers weighing multiple headwinds and tailwinds and recent dips in consumer sentiment, we continue to place a premium on flexibility not wanting to swing too hard too quickly despite the early signs of momentum we're seeing.

As we've shared before, we like our business model when we're needing to chase inventory in the face of stronger-than-planned sales much more than when we find ourselves needing to cancel purchase orders or markdown excess inventory.

And finally, this team is hungry. With a renewed focus on what is possible and the team of more than 400,000 strong that's solidly aligned behind our priorities, we're confident in our ability to deliver on our strategy and business plans, both this year and over time.

With that, I'll pass things over to Cara, who will share a bit more color on our Q1 performance and all that is ahead.

Cara Sylvester - Target Corp - Executive Vice President, Chief Merchandising Officer

Thanks, Michael. I'm excited to be joining the call today not just to share insights on our Q1 performance, but to outline how we're evolving our merchandising plans in support of improved relevance, differentiation, and growth.

But before I jump in, I want to thank the Target team. The progress that we're seeing, while still early, is a direct result of the focus, resilience, and care our teams are exhibiting every day. There's a lot more work ahead of us, and I'm grateful for how the team is leaning in. Thank you, team.

While I'm only a few months into my role as Chief Merchandising Officer, I'm focused on driving greater clarity across my teams on how we need to work differently. First, merchandising has to lead, not follow what others are doing with a clear point of view on where we win, where we invest, and where we simplify. Second, strategy only matters if there's strong execution behind it. It's not enough to have the right assortment. We have to bring it to life consistently across stores and digital with product reliability our guests can trust.

And third, we must work faster and be bolder. To do so, we've introduced clearer merchandising standards, strengthened accountability within our teams and are simplifying how work gets done. This framework is designed to help us deliver on the strategy we shared at our financial community meeting centered on serving busy families, guests who are managing a lot and are highly choiceful about where they spend their valuable time and money. We already have disproportionate wallet share from this consumer segment, but there's an opportunity to deepen that relationship further.

So while maintaining a strong core assortment across our categories, we're intentionally leaning in more aggressively behind a set of prioritized assortments and guest needs, areas where we can lead the market by being bold, distinctive, and affordable. These focus areas represent about half of our sales today and are expected to drive roughly three quarters of our growth going forward.

They include building a leading beauty destination, expanding our role in health and wellness, being food forward, celebrating baby and kids, leading in women's style, inspiring the love of home and building culture-driven categories, including toys and entertainment. I'd like to spend a minute or two on some early proof points evidencing this strategy is resonating with our guests.

Starting with Baby and Kids, where we have an enormous opportunity to build long-term loyalty with busy families. We know the value we can deliver by helping busy new parents find the products they want and need to keep their baby happy, healthy, and safe. So we're investing to do just that with a thoughtfully curated assortment of trusted owned and national brand products, an elevated in-store experience and in select stores, new premium services we're testing, including a baby Concierge.

We're encouraged by what we're seeing including a more than 5 percentage point acceleration in baby comp trends in the back half of the quarter following the launch of these new offerings showing that when we reduce friction and build trust early in a family's journey, we foster an ongoing relationship that spans across categories.

Busy families are also increasingly focused on health and wellness, an area shopped by more than 70% of our guests already. To deliver newness and drive greater distinction in the market, we recently added around 1,500 new items and have plans to refresh around 40% of our assortment this year. These changes drove double-digit sales growth in the first quarter, doubling comp growth rates in wellness-related categories compared with Q4 of last year.

In food, guests tell us they're looking for inspiration, new products, trending flavors, and better-for-you options. Delivering on these priorities is the goal of our Food Forward strategy, evolving food from a category they shop while they're at target into a reason they choose to come to target. We introduced 3,000 new food items in Q1 alone, with sales from those items growing more than 50% over the prior assortment. We'll continue leaning further into high-growth areas like protein, functional beverages, and better-for-you snacking, where guests are actively seeking newness.

And finally, we're celebrating the trends that shape culture to create buzzworthy assortments and experiences exclusive to Target. So far this year, we've offered three such partnerships that far exceeded our aspirations. I'll start with our Q1 drops from Parke and Roller Rabbit. With social engagement significantly exceeding prior collaborations and some of the strongest launch week sales we've ever seen from our limited time offerings.

These partnerships show that when we combine great product with cultural relevance, we create moments that drive traffic, engagement and excitement for our brand. And for fans of all ages, our only at target cross-category Pokemon collaboration helped to position Target at the center of one of the most powerful global franchises. The launch earlier this month set sales and social media engagement records for us, and we're excited about another drop taking place later this quarter.

These examples show how we're focusing on style, design, and culture to lead with merchandising authority. But just as important is our commitment to value because consumers shouldn't have to trade what they want for what they can afford. For example, in toys, we've seen tremendous growth from new offerings priced at \$20 or less, including many priced at \$5 and \$10. The combination of on-trend toy assortments at prices busy families can afford helped to support double-digit comp growth for toys again this quarter.

Across all these examples, the takeaway is clear. Guests respond when we're bold in our assortment, distinctive in our point of view and clear on value. While these are encouraging early signs of progress, the bulk of the work is still in front of us. As we look ahead to Q2, there's a lot of change ahead and Lisa and I are partnering to drive the right decisions to build further momentum.

In food, we'll be executing our largest transition in over a decade, resetting nearly half of our center store grocery assortment, accelerating our pace of newness by nearly 50% and better aligning to wellness trends, including the elimination of all certified synthetic colors from our cereal assortment.

In home, we're beginning a multiyear reinvention. We'll make significant edits to decorative accessories this quarter, changing out nearly three-fourths of this assortment. Later this year, we'll introduce that same level of change to kids home and bedding categories as we continue to clarify our offerings and value proposition in these ever-important style categories. We have plans to continue this journey with additional home categories like kitchen and storage in 2027.

And in beauty, we're preparing for this fall's launch of our Target beauty studio in more than 600 stores, building on the momentum we've been seeing in the beauty category. This includes working to minimize the disruption that these changes will cause cultivating an assortment of trending beauty products and building out robust plans to support an efficient transition.

So as I get ready to pass things over to Lisa, I want to leave you with a summary of where we're at and where we're going. We have a clear strategy. We're investing behind that strategy, and we're seeing strong early proof points across our priority categories. But this is a multiyear journey.

With a ton of change still ahead of us, we're executing our plans with urgency, scaling what's working, learning quickly and continuously raising the bar on how we show up for our guests. We're moving faster and with greater intention with the discipline required to build sustainable long-term growth.

With that, I'll pass things over to Lisa.

Lisa Roath - Target Corp - Executive Vice President, Chief Operating Officer

Thanks, Cara, and good morning, everyone. I'm honored to join you today in my new role as Chief Operating Officer. I step into this role after more than 20 years at Target with experience across merchandising, stores and operations, supply chain and marketing. That breadth has given me a deep understanding of how strategy becomes real for our guests. From the products we choose to how they flow through our network to how our teams bring our product and an elevated experience to life every day.

That perspective matters because strategy only creates value when it shows up consistently for our guests. As COO, my focus is on strengthening execution across the enterprise, giving our teams the clarity, tools, and support they need to deliver our North Star, a consistent easy, inspiring and friendly experience at every interaction, and we're seeing encouraging momentum.

In Q1, many of our store experience metrics reached three-year highs with improved Net Promoter Scores and overall satisfaction regarding wait times, product availability, store cleanliness, and interactions with our team. At the same time, we're clear-eyed about where we need to improve. Product findability and in-stock availability remain the biggest friction points for our guests, particularly in high-frequency categories like food and at critical times like evenings and weekends.

So our focus is simple: strengthen in the fundamentals while continuing to create moments of inspiration. To do this, we're engaged in a few key areas across our stores and supply chain facilities. Let's start with inventory availability.

We cannot deliver a great experience if the right product isn't on the shelf, whenever, wherever and however our guests choose to shop with us. Despite stronger-than-expected sales, we made significant progress on improving in-stocks this quarter. Notably, top item availability improved meaningfully year over year, and we're moving with urgency to chase into the additional inventory we need, given our elevated top line expectations for the balance of the year.

Beyond overall in-stock levels, we're focused on improving the connectivity between our upstream and downstream processes across the operating system. That means starting with optimized merchandising decisions that impact how product is received within our network and how that product flows through the system. This, in addition to the investments we're making to improve data and network visibility will help us to drive greater consistency and flow throughout our network. Another key focus is on our store workload and labor.

We've been making intentional investments in payroll and training to rebalance workloads, so our teams can spend more time with guests. We're putting the hours where the workload is, and we're measuring the impact these investments are having on the guest experience. At the same time, we're working to simplify fulfillment to manage growing digital demand without compromising the in-store experience.

We've now provided more than 300,000 team members and leaders with our guest experience training, which reinforces our strategy by connecting daily behaviors to clear expectations and building accountability across the field. Early feedback has been strong with teams saying they appreciate the clarity on priorities.

Just as importantly, we're seeing early improvements in guest experience and satisfaction metrics in stores where we've increased support. There's more work ahead, but these early signals are encouraging. And beyond training, we want to make sure our teams have the physical and technological tools they need to complete their work as well. This is why we're enhancing tools like myDevice. The handheld devices that support our store teams through a variety of tasks and processes.

And we're enhancing performance dashboards to simplify workflows and improve visibility. So teams can stay focused on our guests. And finally, we're focused on driving greater consistency across our more than 2,000 stores. We're approaching this with our store remodels, prioritizing projects where our guests will feel the greatest impact and where operational benefit and financial returns are the strongest. Alongside these foundational improvements, we're making changes to elevate how our assortment comes to life in stores.

As an example, in beauty, we're testing new staffing and operating models to free up more time to focus on guests, especially during peak periods. And as Cara mentioned, we're excited about the upcoming launch of our beauty studio concept which will create a more immersive discovery-driven experience. Beyond our investments in talent and the presentation within our stores, I want to spend a few minutes talking about the investments we're making in the physical buildings themselves.

In Q1, we opened seven new stores, including our 2,000th location and we remain on track to open more than 30 this year. We're energized not only by the financial strength these openings bring but by the meaningful impact they have in the communities we serve, expanding access to our incredible value and assortment, creating jobs and bringing us closer to more guests, giving us additional opportunities to invest our time, resources, and support as the new neighbor in town.

Beyond new stores, we're also scaling our remodel program with over 100 projects already underway including an enhanced focus on food and frequency driving categories where we're seeing the strongest returns. Given our stores as hub fulfillment model, which allows us to fulfill more than 95% of our sales from our stores, any investment we make in stores is also an investment in our supply chain.

That said, we're also investing in supply chain specific facilities and technology. Our supply chain is one of the most complex yet capable networks in retail. Our go-forward strategy is focused on reliability, speed, and cost efficiency including continued improvement in product availability, ship to home speed and improved leverage on supply chain expenses.

We're building from a strong foundation. In Q1, we saw higher inventory productivity with turns up more than 10% year over year. We also maintained consistent top item availability and improved key reliability metrics even amid higher-than-expected demand. At the same time, there are clear opportunities to improve, and that starts with our upstream facilities. And we're investing there.

Adding network capacity with two recently opened facilities, a new receive center in Houston and a new food distribution center in Colorado. The Houston facility alone is expected to process around 25 million cartons annually, significantly expanding upstream network capacity.

To further drive the step function change we expect from our supply chain. I'm excited to announce that we recently hired Jeff England as our Chief Global Supply Chain and Logistics Officer. With decades of supply chain and logistics experience, Jeff is a transformational leader with a proven track record of improving inventory availability, reducing transportation costs, and strengthening operational excellence.

So now before I pass the baton to Jim, I'll end where I began. I'm excited to step into this role. I'm encouraged by the strength of our business foundation and even more energized by the opportunity ahead. We have the assets, the scale, and the team to reach our full potential.

And well on the topic of team, I want to express my gratitude to each and every one of you. And in particular, our frontline team members in stores, distribution centers and service centers that bring our brand to life for our guests each and every day.

Our mission is clear: drive greater consistency, improve reliability, and leverage technology to enable our teams to continue to deliver the most delightful guest experience in retail. Because when we get that right, when every guest can count on target to be easy inspiring and friendly, that's how we unlock the full potential of our business.

With that, I'll pass the call over to Jim.

Jim Lee - Target Corp - Chief Financial Officer, Executive Vice President

Thanks, Lisa. When we last spoke with you at our Financial Community Meeting in early March, we shared that we were seeing a strong start to the quarter. Through the remainder of the quarter, top line trends remained strong and exceeded our expectations. And with this upside on the top line, we saw better-than-expected performance on the bottom line as well. For the quarter, net sales of \$25.4 billion were 6.7% higher than last year and 3.7% higher than two years ago.

Comp growth of 5.6% was driven primarily by a 4.4% increase in traffic, which more than offset a 2.4% decline a year ago. Top line trends were strong across multiple dimensions of our business, including both our stores and digital channels, across our core merchandising categories, and across the quarter. And importantly, we gained or held share in the significant majority of our divisions in the quarter and across income brackets as well.

In our stores channel, net sales were up nearly 6% from the first quarter a year ago, accounting for more than \$1 billion of additional sales or about two-thirds of our net sales growth overall. Within the digital channel, first-party sales grew nearly 9%, led by growth in same-day delivery of more than 27%.

On Target Plus, our third-party digital sales platform, we saw nearly 60% growth in first quarter GMV. On the gross margin line, our first quarter rate of 29% was about 80 basis points higher than a year ago. This improvement was the result of productivity initiatives and leverage in our supply chain, growth in high-margin revenue streams like Roundel and Target Plus and lower markdown rates, partially offset by higher product costs.

On the SG&A expense line, our Q1 rate of 21.9% was more than 2 percentage points higher than last year's rate of 19.3%. However, as you'll recall, last year's SG&A expenses included the benefit of legal settlements totaling nearly \$600 million. Last year's adjusted SG&A rate, which excluded the benefit of those settlements, was 21.7%, about 20 basis points lower than this year. This year's adjusted SG&A expense growth of around 7% reflected the impact of investments in additional hours and training for our field teams along with higher incentives, planned spending related to capital projects, higher marketing spend, and growth in general liability expense.

Our Q1 operating margin rate of 4.5% was lower than last year's rate of 6.2%, but about 80 basis points higher than last year's adjusted rate of 3.7%. Altogether, our business delivered first quarter GAAP and adjusted EPS of \$1.71, 24% lower than prior year GAAP EPS and 32% higher than prior year adjusted EPS. Now I want to turn to capital deployment and begin where we always do with a reminder of our priorities, which have been consistent for decades.

We first look to invest fully in our business in projects that meet our strategic and financial criteria. Next, we look to support the dividend and build on a more than 50-year record of raising the annual dividend. And finally, we look to deploy any excess cash beyond those first two uses to retire shares over time within the limits of our middle A credit ratings.

Regarding the first priority, we deployed about \$1 billion for capital expenditures in the first quarter and continue to expect about \$5 billion of CapEx for the full year as we invest behind the growth priorities we outlined at our financial meeting in March.

Regarding the second priority, we paid \$516 million in dividends in the first quarter, up slightly from a year ago, driven by a 1.8% increase in the per share dividend, partially offset by a lower share count. We plan to request that our Board approve another small increase in the quarterly dividend later this year, allowing us to build on our record of annual increases while moving us closer to our long-term goal of a 40% payout ratio over time.

And finally, regarding the third priority, we did not engage in any share repurchase activity during the first quarter. Looking ahead and assuming our business continues to perform well, we should have some capacity to repurchase shares later in the year with the magnitude and pace governed by our outlook and our goal to maintain our current middle A credit ratings. Now I want to turn to our expectations for the remainder of the year.

As Michael said earlier, while we're very encouraged by our Q1 performance, we have a ton of work ahead of us, and we're maintaining a cautious outlook overall. Notably, in the quarter just ended, we faced the easiest prior year comparison of the year, and we'll be facing the hardest comparison in Q2, a nearly 2 percentage point difference as we begin lapping last year's launch of the Nintendo Switch 2. Furthermore, we believe this year's higher tax refunds were a source of upside to consumer spending in Q1 and that benefit will be feeding over the rest of the year. While consumers have proven to be resilient so far, sentiment has been declining recently, and we're keeping a close eye on their spending behavior.

With that as context, I'll turn first to our annual guidance on the top line, where we've updated our expectations. For the full year, we are now planning for a net sales increase in a range centered around 4%. This outlook is 2 percentage points stronger than our prior range and reflects some moderation from our first quarter pace based on the reasons I outlined above.

Turning to the bottom line. We previously provided an EPS range of \$7.50 to \$8.50. Given the profit upside we saw in the first quarter, we are now expecting to end the year near the high end of that range. That said, we still have most of the year ahead of us and continue to believe we're best served by maintaining a cautious outlook.

Looking ahead, we will continue to focus on providing full year guidance. But as I mentioned earlier, we'll be facing more challenging prior year comparisons in Q2. In addition, we continue to expect more challenging cost headwinds in the first half of the year that are expected to moderate in the second half.

So to close, I'll simply reinforce that we're making investments to win and drive long-term sustainable growth. And while it is early in our journey, we're pleased with our Q1 performance and encouraged that our strategic focus and priorities are showing clear progress.

With that, I'll turn it back over to Michael to close this out.

Michael Fiddelke - Target Corp - Chief Executive Officer, Director

Thanks, Jim. Before we open the call for questions, I want to emphasize some of the key themes I hope you've heard from us today. First, we're encouraged by the progress we saw in Q1. The quarter demonstrated that when we operate with clarity, focus, and discipline, our strategy resonates with guests. We saw strength across our categories, growth in both stores and digital, improving guest experience metrics and early proof points that our merchandising and operational priorities are beginning to gain traction, but we also want to be very clear.

We are still early in this journey. One quarter does not define success. The majority of the work remains in front of us and we have significant opportunities ahead to further strengthen our relationship with busy families in service of becoming the most delightful shopping experience in retail.

What gives me confidence is that we have a clear strategy, a strong foundation and a global team that is aligned around where we're going and how we'll get there. We're making deliberate investments to deepen our merchandising authority, elevate the shopping experience, advance technology, and strengthen both the communities in which we operate and how we function as a team.

We believe the opportunity is substantial. We have a differentiated brand, a unique combination of design, style, convenience and value, and a business model that positions us to continue gaining relevance with guests over time.

And finally, I want to close by thanking the entire Target team across our stores, supply chain facilities, service centers and headquarters, both in the US and around the world, our team continues to show tremendous resilience, energy, and commitment to serving our guests

every day. The progress we're seeing is a direct reflection of their work, and I'm grateful for everything they do to bring the target experience to life.

With that, operator, we'll open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Corey Tarlowe, Jefferies.

Corey Tarlowe - Jefferies LLC - Analyst

Congrats on the results today. Michael, I wanted to ask about the key changes that you've made that you feel that really have some sustainability or sticking power throughout this year. As you think about a lot of the organizational changes that you've made, you've also trimmed SG&A to a degree. I believe you highlighted cutting 8% of the workforce previously. So there's definitely a commitment to accelerating change while keeping costs controlled.

And I just wanted to hear a little bit more about your perspective there as we continue to build for more profitable growth going forward.

Michael Fiddelke - Target Corp - Chief Executive Officer, Director

Yes. Thanks for the question, Corey. And I guess what I'd start is where you ended. It's all about growth. The strategy we've laid out with a clear focus on us winning in our unique lane.

And we know that when we lead with style and design, while delivering incredible value in the products we sell, that's why the focus on elevating our merchandising authority and how we sell it, elevating our guest experience.

We're all aligned as a team around those priorities, and they're informing every decision that we make. And we know the P&L hangs together well when we get growth. You saw that in the first quarter where a strong first quarter top line outcome translated to better-than-expected bottom line outcome. And so all the decisions we're making are in support of that growth.

And we're encouraged by how we see consumers responding to the changes that we make. I might pass the baton to Cara here to unpack a little bit more of what we saw working well in the first quarter. But the thing that I get encouraged by is where we're making change in merchandising assortment and where we're making change to elevate the guest experience, we see a consumer that's responded. And a huge thanks to the entire Target team that's been working so hard for months now to put that change in place.

And we're only a quarter into the year. We've got a lot of change coming in Q2 and beyond.

Cara Sylvester - Target Corp - Executive Vice President, Chief Merchandising Officer

And I would just layer on that really the merchandising team is laser-focused on serving busy families. And if we think about some of the changes that we put into place in Q1 really highlights from a newness standpoint as we think about really leaning into wellness-related categories.

I would highlight the 3,000 new items that we added in Food and Beverage, the 1,500 new items that we added in our wellness categories. as really areas that we're leaning in to listen to what our guests are searching for, what they're excited by and bringing sort of that mix of style, design and value to them. The other real standout is our focus on Baby in Q1.

And I think that's a great example where we've started early on our journey, but a pretty significant overhaul to the category, listening to deep insights of what busy families we're looking for and bringing in the right assortment, 2,000 new items starting at \$1, but also introducing premium offerings where they were looking to spend a little bit more on some of those big ticket purchases. It was also an area of the store that we had not updated in quite some time. And so we were able to actually bring the level of inspiration and the level of discovery to the baby area by introducing Baby Beacons.

And then in 200 stores, we are testing a baby concierge service as we think about really our role in elevating that guest experience. And so I think about those proof points in Q1 as really good early signals that are laser-focused on serving busy families with that combination of value, style and design is working. It's gaining traction. But again, we have much more work to do.

Corey Tarlowe - *Jefferies LLC - Analyst*

And then just a quick follow-up for Jim. You mentioned in your prepared remarks that cost headwinds in the first half will moderate in the second half. Could you provide a little bit of color about what you meant there? And then specifically also discuss what to expect from a freight perspective this year.

Jim Lee - *Target Corp - Chief Financial Officer, Executive Vice President*

Corey, yes, as I mentioned in the financial community meeting, we assume some level of cost headwinds in the first half of the year relative to the second half. One of those examples was as we're opening new stores and remodeling, you will see much more accelerated depreciation and certain costs just hitting the first half of the year, and that's primarily timing related.

There's also a reference to shrink being slightly elevated through the P&L in the first half of the year versus the second half. It's just more timing related to how we book accruals for the year. Just a quick note on shortage, we expect -- we continue to expect us to be in line with last year, but it's just purely a timing thing versus from the first half to the second half of the year.

And from a freight standpoint, we're monitoring that closely. Our guidance reflects what we're seeing as scenarios on freight as well.

Operator

Spencer Hanus, Wolfe Research.

Spencer Hanus - *Wolfe Research LLC - Analyst*

I just was curious what you're seeing in terms of comp momentum and due to date? And then how are you thinking about reinvesting some of the upside from the comps going forward to keep up the momentum that you've seen in the first quarter so far?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. I'll maybe start with your second question. As you think about reinvestment we step back and think about it a little bit differently. We started the year with a clear view of where we needed to invest behind the strategy. We spent a lot of time in our financial community meeting outlining what that strategy is. That's only made real when we make decisions against that strategy and invest with conviction against what we know will work.

And so that's what we've laid out in plans this year. I might ask Lisa to chime in about some of the investments that we're making in stores and in payroll, the hundreds of millions of dollars invested there directly to help improve the consistency of our experience. We're excited about the \$5 billion of capital we'll put to work in the business this year, a really strong new store pipeline as a piece of that spend, the remodels that help bring our latest and greatest thinking to more and more target stores in community is a big part of that spend. And so you'll see us continue to invest behind the places we know will accelerate growth over time.

But that's not a read and react by quarter thing for us. That's us being convicted on what we know will work because we've tested it and we've seen results and we lean into what's working. And the path forward is all about sustained long-term growth. We also know that one quarter doesn't make a trend yet. But that future is paved a quarter in time, and we're encouraged by what we're seeing in Q1.

Lisa, do you want to maybe share a little bit more about some of the investments that we're making?

Lisa Roath - Target Corp - Executive Vice President, Chief Operating Officer

Yes. We're excited about the investments that we have underway. And as we talked about, all of those are in line with the strategy that we've put forward. We shared the news that we recently opened our 2,000th store, we have 100 remodels underway this year. We'll have 30 new stores this year on our way to 300 by 2035.

I think what's important to remember about those stores is that they're larger. So you're looking at 125,000 to 150,000 square feet and there's the best expression of our strategy. And so you see us leaning into food and fulfillment in new ways. We're also investing across the chain in transitions as we move throughout the year. And so that's another lever that we have to make sure that we're bringing newness at scale across the portfolio, which we're carefully managing as we move throughout the year.

And then Michael talked about our investments in stores. We started off the year talking about investing hundreds of millions of dollars in payroll for our stores. Our store team members are at the heart of Target and making sure that we put that payroll where the workload is, is critical to us being able to elevate that guest experience. So that means lining that up on nights and weekends, making sure that we're staffing to provide a great experience, and we're seeing that pay off. We were excited to share three-year highs in key fundamental guest metrics like cleanliness, interaction with our team members, checkout experience.

And so we'll carry that forward as we continue to invest in the parts of our portfolio and our strategy that really lead to that elevated guest experience.

Michael Fiddelke - Target Corp - Chief Executive Officer, Director

Then on your other question about kind of what we're seeing so far to date in Q2, I think Jim hit in his prepared remarks, well, the things on our mind as we look at the second quarter. There's some unique things from last year like the Nintendo Switch launch that we know or are added some momentum in Q2 of last year. It was the strongest quarter of last year. And so we'll anniversary that in Q2, that's on our mind.

But we're excited about how we've seen the consumer responds to what we're doing in the first quarter. We've got a lot more change coming in the second quarter and beyond. And so the response we've seen so far, gets us pretty excited about what we'll see as we make more change over the balance of the year.

Spencer Hanus - Wolfe Research LLC - Analyst

Great. And then just to follow up, in terms of the shelf resets that you've done to date, how have the sales been trending relative to your expectations? And how has that informed how you're going to be resetting categories as we look through the summer and then into back-to-school later this year?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

I'll maybe have Cara add some of what we're excited about to come. But the punchline, I would say so far is where we're making change, we're seeing the guest response. And we've got a lot of change plans this year. You heard me say at the Financial Community Meeting, we'll make more change to what we sell and how we sell it in 2026 than we've seen in a decade. And we're not going to get it all right.

We'll have lessons learned as we go through the year. We know managing that amount of change, it's an incredible amount of work for the team. They've shown up to do that so far has just been really encouraging to see in the first quarter. But by and large, where we're investing in product newness, we're investing in elevating the guest experience. We're seeing the consumer response.

So that just gets me really excited about the change to come. Cara, do you want to share some of what you're excited about in Q2 and the balance of the year?

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Yes. And I might just layer on as we think about the areas that we've touched so far, we've continued to see momentum in our Fund101 business, which we've talked about, which really started last year as we think about a business like toys. The resets that we've done so far this year, adding in newness to food and beverage, adding space and new items to our wellness and health categories. Adding newness to Beauty as well as the changes that I talked about baby, we're really pleased with what we're seeing.

As we think about the quarter ahead, we are focusing on continuing to execute well and driving some of the bigger changes. So right now, as we speak, we are resetting our dry grocery area. It's our largest reset that we've had in this area in over a decade. We're pleased with what we're seeing, but we're really right in the middle of it.

And then we are in the beginning of our transformation in home. And so later this quarter, we're going to add in really our threshold shop-in-shops in about 200 stores and start to really the beginning of that transformation when we think about our decorative accessories category.

And then I would just have to also highlight really excited for the launch of the Target Beauty Studio. So the team is a multi-month process to get ready for that reset, but we are heads down and really excited about what's to come.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

We wanted to ask a few questions around inventory. Thanks for the commentary so far. But we were wondering if you could speak specifically about in-stocks and product availability on the shelf how this is being addressed, what improvements have been made, and how it's being measured.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. Thanks for the question, Kate. I'll maybe ask Lisa to chime in about the journey that we're on there. But the punchline, and you're probably going to hear this punchline repeated over and over from us if we're successful, is we continue to make real progress in improving inventory reliability. And we know the bar is high there.

And so you're not going to hear a hint of real satisfaction from us until we continue that progress in the quarters and years to come. But we're encouraged by the progress that we've made. Maybe just speaking to what you see on the balance sheet briefly.

We're anniversarizing some higher in-transit levels in inventory last year. If you step away from that, I think our inventory position we'd estimate is up just slightly, and it's meaningfully up in some of the higher turning frequently purchased item categories where we're making real investments in product availability.

But Lisa, you want to share a little bit more about the work that continues to make sure that we're reliably in stock for guests.

Lisa Roath - *Target Corp - Executive Vice President, Chief Operating Officer*

Yes. So as you mentioned, impacts are absolutely critical to our guest experience, and we have not been where we need to be but we are making solid progress. We talked about how our in-stocks improved year over year. One thing we're excited about is that the fastest improvement that we saw were in our most important items, the top items that our guests are shopping most frequently with Target. So I think categories like food, essentials and beauty.

And then we continue to invest to improve that further. And that investment spans how we're approaching intelligence, our team, our facilities and data. And so we're working to use AI to improve our demand forecasting, which helps reduce some of the volatility that can lead to some of those in-stock issues. We talked about the team investment. We're really excited to have Jeff be joining the team with his breadth of experience across the industry.

And then facilities. We shared a couple of new facility openings. One is our Colorado food distribution center. And so when you think about that investment in fresh food, again, that leads to better in-stocks, better freshness in some of those most important, most frequently shopped categories. We also recently announced the opening of a new receive center in Houston.

And what we like about that is that it gives us the flexibility to hold more long lead time import, seasonal inventory upstream and then distribute that closer to the time when the guest needs it, which just is just one more lever that gives us the opportunity to have products where our guest needs it when they are looking for it. And so we've been able to couple that with the strong inventory position that Michael mentioned, we feel really good about being healthy and investing where we need to be investing for in-stock.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley - Analyst*

I think if I heard right, Cara mentioned 40% of merchandise will be revamped or is it reset or changed. Can you talk about what percentage of the overall merchandising overhaul is underway in Q1? What percentage will be by the end of the year? And then if there's any into 2027.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. I'll start there, Simeon. And it looks different by category. I think some of what you heard Cara describe was specific to some upcoming change in food where we've got a lot of new assortments coming in the second quarter. But every category is on a little bit of a different time frame.

And for us to bring the right newness over time, you can expect us to continue to invest in the future and bringing what's new and relevant, leading with style and design, what's relevant and culture that's been so important about driving the continued success we've seen in a category like Fund101, we're a little farther down the path some of that reinvention.

But there's other categories where we're just getting started. I mean home is going to be multiyear work for us to get that category back to where we expect it to be over time. But we're not waiting to start that work. The deck accessories transition -- the decorative accessories transition that we'll have in Q2 changes out 75% of the assortment in that subcategory of home.

That will be a good step forward for us. but there'll be parts of the home business that we tackle later in '26 and '27 and beyond. Just came out of some planning meetings in the last couple of weeks about what some of that multiyear plan looks like.

And so I think you can expect us to keep the foot on the gas to make sure we're always bringing the freshest and latest assortment and not every category moves at the same time line. But I'll just underscore, we're encouraged by the response we're seeing.

We know when we cement Target is a place for newness, we cement Target as a place for style and design relevance for guests, that leads to them picking target more often as I decompose the strength we saw in the first quarter, one of the things that's most encouraging to me is a little traffic play, to see comp growth driven by traffic means more guests picking target more often, and that's an incredibly healthy sign for us right now.

Simeon Gutman - *Morgan Stanley - Analyst*

And Michael, just to -- I want to ask a separate follow-up but to your response, it seems to me that you're just getting started, so that what we saw in the first quarter may not have even reflected the newness yet? Or is that unfair?

And then my follow-up question was more for Jim, respecting that it's all about sustainable top line growth, and that is the goal. I do want to focus on margins for a second. The incrementals were pretty good in the first quarter, maybe SG& a little high, and it looks like a similar level of flow-through implied for the back half, even though the top line may slow a little.

So can you talk about the complexion the ability also to see higher flow through over time. And I think some of this goes into self-funding these investments that you've laid out for the year.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. Sure, Simeon. On your first question, the obvious answer is both. Teams have been hard at work for months, building the plans that we executed in the first quarter. And we have a lot more in front of us.

I would say, in many ways, we're just getting started with the change that we contemplate against the focused strategy that we laid out at the Financial Community Meeting. But that's changed that we're approaching with urgency.

That's changed that we've been working towards for many months to be in a place where we could put change the guests responded too well in Q1 in place. And we've got a lot of work in front of us given the ambitious plans that we've laid out for the year. So both things are certainly true in answer to your first question.

I'll pass to Jim to decompose margins, but I'll be shocked if the headline isn't top line growth translates to margin opportunity over time. But Jim, you want to unpack some of what we're seeing in the details there.

Jim Lee - Target Corp - Chief Financial Officer, Executive Vice President

Sure. And Simeon, to your point, yes, SG&A was higher, it's up 7% in Q1. And that's indicative of the investments that we had outlined during the financial community meeting. So there's no surprises. We're making the right investments to drive sustainable long-term growth.

And I'll emphasize, it's early in the year. We're one quarter down. There's still a lot of work ahead of us. So we've guided and flowed through the upside you saw in Q1 EPS to sort of the high end of the range that we provided earlier and we'll continue to update as we go along. But it's early in the quarter.

I mean, our recognition is we have more work to do through the balance of the year. And to Michael's point, driving sustainable growth is so critical for us, getting productivity on a continuous basis and then having top line growth that drives leverage will fuel our margin expansion over time.

Operator

Rupesh Parikh, Oppenheimer.

Rupesh Parikh - Oppenheimer & Co Inc - Analyst

So just going back to the partnership, a lot of success during Q1. Just curious how you feel about the lineup of partnerships as the year progresses? And then any sense of whether these partnerships have led to a new customer acquisition.

Michael Fiddelke - Target Corp - Chief Executive Officer, Director

Yes. I'm happy to start and Cara, feel free to share some of the important role that partnerships have played and will continue to play for us. One of the I think perhaps for us, most enjoyable parts of the first quarter as you think about what we've done so far this year with some of those limited time-only partnerships.

I mean, I think I've had the pleasure of waking up to lines outside of Target stores before we open three times so far this year. And they were around the unique drops that we had with Roller Rabbits and Parke and Pokémon most recently.

That's just an A1 example in Targets that are best, we're bringing style and design and a value that you can only find a Target around brands our guests love. And so -- now that was a fun highlight in the first quarter that I think shows the strength of the pipeline of partnerships that we have. I'd probably get in trouble with the team if we got too far over our skis and sharing what's coming for the balance of the year, but you can expect partnerships to continue to play an important role.

Cara, anything you'd add?

Cara Sylvester - Target Corp - Executive Vice President, Chief Merchandising Officer

Yes. I would just layer on, as we talked about at Financial cementing, we've had a ton of success over decades with our partnerships, and we're working on increasing the cadence and not all of them have to be large and some can be small and drops.

And so as you think about what we did in Q1, really leaning into a couple of really fun socially driven brands like Parke and like Roller Rabbit, we're really exciting. When you think about Pokemon and what we did there. No other retailer is thinking about multi-category and Pop-Tarts to starter jackets to Caboodle's, really thinking about the power of fandom.

We actually had one other line drop, which was our K-Pop-BTS launch as well. So we actually had four launches in Q1 where we drew lines out of our stores. So what we're working on is consistency. It goes always on traffic-driving buzzworthy moment. And I think Q1 is a great indication of what you can expect from us moving forward.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Great. And then my follow-up question is just on Beauty. A lot of momentum in the quarter. It looks like the spring resets are going well. As you launched that beauty studio, what are you seeing so far from vendor interest? Like how is that progressing versus expectations?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. We're super excited about the change that will unfold as we get to the back half of the year. And so a lot of work leading up to that transition moment later this summer. I think more to come on some of the details as we get closer there. But as you know, Rupesh, the Beauty business has been a source of strength for us for a long, long time.

I mean we've got 10 years running of growth in beauty. Our ambition is to just truly be an incredible beauty destination for our guests and our working beauty studio play an important role there. That's another place where you'll see us do the right work on assortments to have loved brands. And you'll see us invest in experience. We know in a category like beauty, making sure that our service levels are equal to the rare air that some of our brands are is incredibly important.

And so that's part of the plan as we as we have that launch later this year.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS AG - Analyst*

I think we're all trying to figure out how much of the first quarter performance was due to the actions that Target has taken versus exogenous variables like tax refunds. So if we look at your first quarter performance at a 5.6% comp versus what your guidance implies for the rest of the year it suggests around a 1% comp, admittedly, you just flowed through the first quarter outperformance, but still, should we take the difference between those two, 5.6% versus 1%, is what you think with maybe some unique factors to the first quarter?

And alternatively, maybe another way to get at this is you have great data. How much are you seeing longer loss guests come back and that would be a sign that maybe some of the boycotts are diminishing and guests are giving you another shot.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

So Michael, it's a fair question. I'd probably stop shy of the precision implied in the math that you were doing there. because I think a few things are true. As we look at the consumer, we see a consumer that continues to be resilient. And they had some headwinds and tailwinds they were managing in the first quarter.

And so we'll continue to watch those closely. We saw strength coming from traffic. We saw strength that was broad-based across categories and guest demographics. So those are all positive signs for us as we look ahead for sure. But importantly, we saw real change on the heels of where we may change to what we were offering and how we were selling it.

And so some of the examples you've heard already from Cara are when we're making change, we see the consumer response. And so there's things that will be out of our control with respect to the path to the consumer in the quarters and years to come. What is in our control is clarity of strategy and how we execute against it. And on that front, we're encouraged by what we saw in the first quarter.

Michael Lasser - *UBS AG - Analyst*

Okay. Going back to -- just as a quick follow-up, coming back to your guidance. You raised your top line expectation and again, probably just flowing through the first quarter outperformance, you simply pointed to the high end of your EPS range. So are there some incremental costs that you had to factor in from areas like freight and other energy-related prices that are acting as an incremental headwind and to what degree are the changes in the tariff situation is going to provide a bit of an offset.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. Thanks for the question, Michael. Jim, feel free to add any more color. But our best view of some of the elevated costs that we've certainly seen is included in that guidance. And the thing I'd probably just reiterate is we're a quarter into the year.

And so we know we're at our best when we position the business slightly cautiously. And we've -- I've been on these calls with many of you long enough that we've seen the impacts and we haven't taken that posture in the business as well. And so we think that's a prudent way to be planning the business.

You heard us say we'd rather be chasing inventory a little bit than canceling inventory. And so that's on our mind as well as we think about making sure that we're a quarter in to a quarter we really -- to a start of the year that we're really pleased with, and we still got three quarters of the year in front of us.

Jim Lee - *Target Corp - Chief Financial Officer, Executive Vice President*

And I can add just more, Michael, on the top line. The way I would think about the top line guidance is approximately half of that increase of the full year guidance was driven by what we saw in Q1 and call it the balance for the rest of the year.

As Michael mentioned, I won't get too precise about the numbers, but we did have the easiest comp in overlap from Q1 of last year. So we're facing a little more difficult comps balance of the year. But I wouldn't read too much into that. I mean we're one quarter in. So we'll update that accordingly as we go.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Operator, I think we have time for one more question.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

So I wanted to touch on the guidance as well. Do you -- what gives you the confidence to raise to the upper end of the range at this point in the year? I know Jim, last year, talked about a baseline of \$8 to \$10 in earnings that you could eventually grow off of. So as you sit here today, is the message simply like we have visibility on the cost side. We have that line of sight in our inventories clean.

So we're just getting back into the range and then there would be maybe some variability around sales. So -- or is it that you're making, I guess, a greater bet in terms of the gross margin outlook, whether that's keeping inventory clean and having full price sell-through?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. I don't think -- the way you characterized it, I think, is probably fair. We entered the year with a pretty clear eye view of where we wanted to make investments. And the thing we have with one quarter under our belt is to see how the early path of those investments is starting to play out. And the response we're seeing to where we've made change gives us encouragement as we look at the balance of the year.

And we've got a lot of work in front of us. We laid out a really ambitious plan for this year. It will be the first of a series of years of ambitious plans would be my guess. And we're one quarter into that. And so maybe we'll wrap with just a huge thanks to the team that's doing the work.

We know in retail, there's no shortcut it's real hard work against the clear strategy that's going to get the long-term growth that we want over time. And I couldn't be prouder of the team's work in the first quarter to take a big step down that path in the early parts of 2026. I'm really excited to do the work over the balance of the year to keep that momentum going.

So with that, I think we'll wrap this quarter's earnings call. A big thanks to everyone for joining, and we'll circle back in 90 days.

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