Michael Fiddelke
Executive Vice President and Chief Financial Officer
The environment rapidly changed.
2022 Profit Headwinds

>$1B excess markdowns

$1B higher freight + transportation

>$500M higher inventory shrink
The environment continues to **evolve**.
Drive up:

>50% of digital sales

Order pickup:

>10% of total sales

Same day delivery:
Guest Transactions

- 2019: 1.7B
- 2020: 1.8B
- 2021: 2.0B
- 2022: 2.1B
HEARD ON THE STREET

Shoplifting Fuels a $94.5 Billion Problem at American Stores

A massive rise in theft is chipping away at an advantage brick-and-mortar retailers have over e-commerce companies: the ability to touch the merchandise.
The economy is still in transition.
Bloomberg

Inflation-Wary Shoppers Pull Back as Goods Pile Up in Stores

- Slammed by inflation and uncertainty, consumers pull back
- Both business and individual bankruptcies could rise next year

A shopper in the toy aisle of a Target in Chicago, on Black Friday. Photographer: Christopher Dilts/Bloomberg

The New York Times

U.S. Mortgage Rates Rise Past 7%

The average rate on 30-year mortgages — the most popular kind among Americans — rose to the highest level since 2002, tracking the Federal Reserve’s aggressive campaign of rate increases.
We remain in a very strong position.
Our path forward is clear.
Agility + Execution
Long-Term Investments
2023 Cash Flow Drivers

- Increased profitability
- Slower pace of CAPEX
- Faster inventory turns
- Improved payables leverage
- Recovery in working capital
Share Repurchases:
only within the limits of our middle-A ratings
Capital Deployment Priorities

Invest in our business

➢ Support the dividend

➢ Repurchase shares
2023 Outlook
Q1 2023 Expectations

- Comparable sales range: low-single digit decline to a low-single digit increase
- Operating income: 4% to 5%
- SG&A expense rate: ~1pp higher than 2022
- GAAP EPS and Adjusted EPS: $1.50 to $1.90
Full Year Outlook
Caution is the appropriate posture in this environment.
Share Gains + Sales Growth
2023 Expectations

- Comparable sales range: low-single digit decline to a low-single digit increase
2023 Profitability

Tailwinds
• LY inventory actions
• Freight and transportation

Headwinds
• Inventory shrink
• Soft discretionary sales
• Promotional intensity
2023 SG&A Expenses

- Continued, strong discipline
- Investments in team + guest experience
- Potential rate deleverage
2023 Expectations

- Comparable sales range: low-single digit decline to a low-single digit increase
- Operating income: increase >$1 billion
- GAAP EPS and Adjusted EPS: $7.75 to $8.75
- CAPEX: $4 billion to $5 billion
Operating Margin Over Time

- Should grow to 6% or more over the next few years
- Could attain 6% as early as 2024, depending on economic conditions
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Long-Term Goal:
Maintain the rate that maximizes sustainable dollar growth