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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning everyone and welcome to our 2026 financial community meeting. I'd like to thank everyone who's here with us in Minneapolis today and welcome everyone who's here with us online.

Michael will kick off in a couple of minutes. First, I have a couple of important disclosures. First, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings.

And second, in today's 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 measures to the most directly comparable GAAP measure are included in our financial press releases, financial presentations, and SEC filings, which are posted on our investor relations website. With that, I'll turn it over to Michael.

Michael Fiddelke - Target Corp - Chief Executive Officer

Welcome everyone. We're thrilled to be hosting our financial community meeting from our hometown of Minneapolis this year. We're going to dive right in because we've got a lot to cover. It's a new chapter at Target.

Today Kara, Jim, and I will share our plans for what's next, starting with a clear definition of Target's place in retail, followed by the four priorities that will guide our path forward and the choices that underlie each. And finally, how those choices translate to growth.

Our plans build on what's always been true about Target when we're at our best. But let me be clear, that doesn't mean dwelling on the past. Instead, we're moving forward with urgency and a firm focus on Target's unique place in American retail.

That means delivering the style, design, experience, and value consumers crave, and delivering the consistent performance we all expect.

And we've already started. We've updated our organizational structure and leadership team in service of simplicity and speed. We've added new directors to our board who bring deep expertise in style and design and who have experience with the type of transformational change we're driving.

And as we shared in this morning's press release, sales trends have improved in recent months, showing early signs we're on the right path. All of this stems from important work we've done to clearly define the lane we occupy in retail, which I'll come back to in just a minute, and the choices that position us to grow and win.

These choices translate to very intentional investments. Investments in categories and capabilities where we know we have an edge and that matter most to our guests and our business.

So if you take away one thing from today, it's this, Target's new chapter is all about fueling growth, and we'll do so by playing our own game and making big changes to delight our guests. Now, these types of changes don't happen overnight. We have work to do, and there are no shortcuts.

But we're excited to do the work, and it's already underway. Many changes guests will see and feel right away. In fact, if I were to step back and draw a heat map of the entire store highlighting where we're making changes this year, you'd see more change to what we sell and how we sell it than you've seen in a decade.

I won't steal Cara's thunder, but know that we're playing to our strengths, from categories where we're consistently leading, like beauty, to others, like home, where we know we can win and which we're reimagining to achieve greater relevance and differentiation.

That means pairing products with experience in a way that only Target can. And all of it is rooted in our learnings of what's worked, what hasn't, and what will drive this new chapter of growth. So, let's talk about what will be different moving forward.

It starts with clarity about the retailer we are and the experience we create for our guests. It's about doing the work to build connection with new guests, deepen relationship with existing guests, and earn back trust with guests we've disappointed.

That work starts with listening actively and attentively across all of our stakeholders and using their input to shape our path forward. We've been gathering feedback from consumers, from those who love us to those who don't, in order to gain a deeper understanding of the role Target plays in their lives.

We've been meeting with founders of small businesses who have grown their brands with Target and want other entrepreneurs to follow in their footsteps. We've also been meeting with national brands and design partners to reinforce our commitment to style, design, and value.

We've been talking to our team about what they need in order to serve our guests well. As a result, we're moving quickly to simplify work, speed up decisions, and empower our merchants and store teams.

And we've been talking to all of you here today to understand what's top of mind for investors as we get Target back to growth. That collective input has crystallized what we do well, where we have work to do, and most importantly, the lane we're uniquely suited to own and win in retail.

That lane begins with our purpose of helping all families discover the joy of everyday life. And we'll bring that purpose to life by being the most delightful experience in retail. Those aren't just words. Delight is a critical filter for decisions and informs our actions going forward.

It encompasses what we consider foundational to a great shopping experience, convenience, speed, price. Consumers consistently say they want and expect more, especially from Target.

So, delight is our standard. That means getting the basics right. Sharp pricing, strong in-stocks, wicked fast same-day delivery. Yet, our bar is higher. We want to spark an emotional connection so shopping isn't a chore, it's a joy.

And that spans everything we do, from the products we sell to the experiences we create, from the design of our shopping carts to the way we greet our guests, from making our marketing campaigns, to our community partnerships, all of it ladders up to a brand that's designed to inspire, invite, and delight.

So, clearing this bar requires making choices about how we will show up as a retailer. Because for Target, differentiation is how we win, and Target is built to be different. We're doubling down on our design ethos across our products and experience.

And, we're leaning into curation with an acute focus on blending style with value. And we're creating an experience that feels elevated, seamless, and importantly, human. We're getting crisper on the guests who power our growth. These guests are united by mindset.

They value style and design, seek ease and simplicity, and they don't want to settle for anything that feels ordinary or joyless. They move fast, they're digitally fluent, and they gravitate toward brands that mix practicality with fun and personal expression.

We refer to this group as busy families, and it's one where we see outsized strength in sales and loyalty. We're leaning in here, knowing that when we serve busy families well, we create durable, long-term value that has a positive ripple effect for all Target guests.

That's the foundation, a clear purpose and ambition rooted in joy and delight, clear choices that differentiate us and play to our strengths, and a deeper understanding of what busy families need and expect from us. Which brings me to the four priorities that underpin our growth strategy.

Four priorities we're advancing in parallel because of how they work together to drive growth. Leading with merchandising authority, elevating the guest experience, accelerating technology, and strengthening team and communities.

I'll spend most of my time today on the first two cause that's where guests will feel change the most. Then, I'll touch on how technology, team, and community power it all. So let's start with merchandising authority. Earlier this year, I spent some time with the team who manages our corporate archives.

This collection is pretty unreal, spanning artifacts from our early department store roots to products from every design partnership we've ever had.

Now I share this not as a point of nostalgia, but as a reminder of who Target is at our best. When we're setting the bar on style, when we democratize great design, when we're pacesetters of what's cool and what's buying.

That's what merchandising authority means, and it's what we aspire to deliver across categories and brands. At its core, merchandising authority is about curation and playing to our strengths.

Target is not an everything store. That's not what guests want from us. They want a strong, trend-forward assortment that they can trust to deliver quality and value, and that's exactly what we do at Target when we're at our best.

So we're making choices. In assortment, we're doubling down where we are strongest and where guests tell us our right to win and grow is highest. An early template for this approach is Fun 101.

This is a multiyear transformation from hard lines, which many retailers sell, to a more immersive, trend-forward approach to sports, play, gadgets, and pop culture. This is an area where Target has a right to win and our guest base loves to shop.

Whether it's bringing style and sport together with a Fan Central destination or an affordable plush wall so families can get fun toys at a great price, you're going to see us infuse our assortment with newness, value, and a fresh experience to match. It's not just Fun 101.

We're taking this approach to categories like baby, home, food and beverage, and beauty, repositioning our assortment and our floor plans to bring newness to all 2,000 stores this year. In other words, we're giving guests more reasons to shop us more often.

And as we always do, we're using their feedback to iterate, refine, and keep getting stronger over time. This will be a journey, and it starts with a lot of change in 2026, but it doesn't stop there. In fact, the team is already actively planning for 2027 and beyond.

Now to priority two, elevating the guest experience. Delighting our guests always starts with product, but a huge part of what drives guest love for our brand is the experience we create around those products.

For many guests, their experience starts with discovery on social and in search. This is where our scale allows us to lean in and invest at the top of the purchasing funnel so that we reach consumers in all the ways they're shopping today.

Whether it's connecting with consumers on social by partnering with creators who share our commitment to style, design, and value, or our investments in AI to make search more conversational, almost like having a personal shopper, or the way our media business, Roundel, seamlessly integrates into the shopping experience so guests find products that feel just right for them.

That's discovery at its best. It's a critical entry point for building trust, which in turn builds loyalty. And loyalty is an important growth engine for us. The reach of our loyalty program, Target Circle, gives us critical information about how consumers shop enabling us to deliver an experience that feels more relevant and tailored.

And when guests feel like their experience is personal, they shop with us more. Members of our loyalty program, Target Circle, spend 3 times more on average. Those enrolled in Target Circle 360 with unlimited same-day delivery spend 7 times more.

These guests account for more trips too. As with many of the updates I've shared today, work is already underway on what's next and Cara will share more shortly. Digital discovery and loyalty are essential to an elevated guest experience.

And especially for Target, I want to emphasize that our stores are every bit as essential. In many ways, they are truly the heartbeat of our experience. Guests tell us they love the feeling of walking into a Target that's clean, welcoming, and easy to shop.

In fact, one of the greatest compliments we ever receive is when guests refer to their local store as "my Target". That possessive speaks volumes about the role our stores play in building lasting relationships with guests.

I challenge you to think of any other retailer or company for that matter that sparks the same sense of ownership and care. Now, you heard me talk earlier about delight as our standard. We need our experience to delight guests every time, and to be crystal clear, there's real work for us to do here.

That's why we're strengthening reliability and service end to end, as well as making meaningful investments in payroll and training that our teams need to consistently deliver for our guests. And while we're not yet at the bar I have for us, we're seeing progress.

Our relentless cross-company efforts on reliability have produced ongoing year-over-year gains in on-shelf availability, and you'll see us continue to focus on improvements here.

We're leveraging technology to support our company's digital growth and enhance the in-store experience. That balance has been skewed in recent years by explosive digital growth.

But, today, we're using technology to keep momentum building in our digital business and simplify work for our store teams so they can spend more time serving our guests.

And we're making a more than \$2 billion incremental investment across the business this year, including an additional \$1 billion in CapEx to support new stores and remodels and another \$1 billion to elevate the guest experience.

Jim will provide more detail in a few minutes. but all of this is designed to elevate how guests experience Target every time they shop with us. The next two priorities, accelerating technology and strengthening team and communities, are just as critical and they work hand-in-hand powering the first two.

In fact, we've touched quite a bit on technology already today. It's woven into everything that we do. And that's because at Target we don't chase technology for technology's sake. We believe in technology with a purpose. In our case, making shopping more joyful. And it should directly benefit our team and our guests.

So whether it's making it easier for guests to find the perfect product when they browse our aisles or putting technology into the hands of our team so they can better serve our guests, our tech investments are all in service of our ambition to be the most delightful experience in retail.

The same can be said for why we prioritize strengthening team and communities. This has always been core to who we are. And it will continue to be at the center of this new chapter for Target.

For all the team members tuning in today, thank you. Everything I've outlined today, the resilience, the progress, the boldness, is because of you, Team Target, and our ambition to be the most delightful experience in retail begins and ends with you.

I'm so proud to lead this team and excited about what we are building together. What we are building extends far beyond the walls of our stores, our supply chain facilities, and our offices.

Target believes in the power of community and turns that belief into tangible action, like the 1 million hours our team volunteered last year, which is the 10th time in our history we've hit that milestone.

That includes our Bullseye Builds with Community program, which pairs our commitment to volunteerism with our design expertise to meet the needs of local neighborhoods.

We recently announced a planned investment of \$1 million to bring this program to 13 community spaces this year. Action also includes the 5% in profits we give back to communities in products, cash, and through the Target Foundation.

This is something we've done for 80 years and today translates to millions of dollars each week. These investments make our communities stronger and more vibrant. We'll also continue to invest in our team so that every team member can grow a meaningful career with us.

This includes pay, benefits, and signature programs like Dream To Be, which provides tuition-free education assistance for our team. More than 12,000 team members have earned degrees and professional certificates through Dream To Be to date, a testament to the growth and opportunity that we value so much at Target.

Because when our team thrives, so do our guests. And when our communities thrive, so does Target. So let's step back and turn to the bottom line and what all this means to Target's future. A thriving, growing Target is the only goal and will be the focus of this team every single day.

A growing Target is a great place for our team and our partners and is the only path to creating value for our shareholders. The questions I know are top of mind for many of you. One, what's Target's winning path? And two, what will it cost?

The answer to number one is when we play our own game, we're confident the plans we've laid out today position Target for sustainable growth. Our path to growth and share gains is unique to Target and is fully within our power to drive.

And that confidence is justified because the early wins we're seeing directly align to where we've committed to do more. And the answer to the second question, it does require investment. We have work to do, and Jim will get into the details shortly.

But a clear strategy leads to sharper focus. And when you couple that sharp focus with the work the team is doing to find efficiency, we're able to make real investment against the work. You'll see us make the changes in investments in the areas that matter most to guests and ultimately win trips, build baskets, and drive growth.

And that's the bottom line. Target's new chapter of growth begins this year because we're clear on Target's place in retail, we have four priorities that will guide our path forward, and we're making strategic choices and investments across the business that drive performance.

I'll now turn it over to Cara and then to Jim to talk more about those choices and how they translate into long-term profitable growth.

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

Hello, everyone. Thanks, Michael. I've spent my career at Target at the intersection of merchandising, experience, and growth. First as a merchant for about a decade across our frequency and discretionary businesses.

Then over the past five years, leading our digital marketing and loyalty ecosystem as our Chief Guest Experience, and now as Chief Merchant. That connection matters because merchandising, it isn't separate from the guest experience. It's where the experience begins.

It's the choices that we make. It's how we show up in our stores and online, and it's how we earn repeat visits. I will be direct. Our performance over the last few years has not met expectations, and that is on us. We lost the clarity and the discipline that make Target a place loved by busy families.

The enterprise priorities that Michael shared, they represent clear choices about what we're doing to make Target the most delightful experience in retail. My focus is to operationalize these priorities in clear and measurable ways.

That means sharper assortment decisions, leading with style and design authority and exceptional value, simplifying where we need to simplify, and curating with greater clarity. It means delivering true differentiation, elevating innovation and emerging brands, strengthening own brands, and accelerating newness that keeps Target distinct.

In close partnership with Lisa, Adrienne, and our stores teams, helping support an elevated experience and execution across our stores so that what we sell and how we present it consistently reflect the Target brand, all reinforced by a digital and loyalty ecosystem that connects discovery to repeat engagement.

In short, clearer choices, stronger authority, and better execution. Let's start with merchandising authority. As those of you joining us in Minneapolis saw this morning, this is where our style, our design, and our value proposition become tangible and where we're making deliberate choices to differentiate.

We are rebuilding legacy strengths. We're accelerating momentum in areas where we're seeing progress. We're disproportionately investing where consumers tell us we have a distinct right to win.

In everything that we do, we're going after opportunities to drive a stronger, clearly Target point of view. Over the next few minutes, I'd like to discuss the changes that we're making in merchandising to deliver on that commitment.

Specifically, I'll share how we're reclaiming our style authority in home, how we're getting faster with style and culture in our apparel and accessories and Fun 101 businesses, the important work this year to accelerate our path as a beauty destination, creating what's next in food with a style-led identity that's distinctly Target, leveraging the power of our multi-category assortment to lean into wellness, and evolving our baby business into a category that's fun and inspiring and that builds lifelong relationships with new parents.

Let's start with home. This category is foundational to the Target brand. Having led this business before, I understand both its potential and the discipline required to win here. Home is where our design ethos first became tangible, but it's also a space where we've lost our way. You see that in our recent results.

And we have a lot of work in front of us. Transforming this category will be a multi-year journey. We know that reclaiming our authority in home starts with clarity and conviction in pursuit of a simple ambition, to offer the most stylish, design-forward home products at accessible prices.

We are going category by category to reinvent key areas that have not been touched in years. As an example, by June, we'll have overhauled 75% of our decorative accessories assortment. Think trays, throws, candle holders, greenery, and faux florals.

By the fall, we'll have touched more than three-quarters of our top-of-bed assortment and more than 80% of kids home. At the same time, we're also accelerating assortment on our third-party marketplace, Target Plus.

This allows us to move with speed and deliver the style and assortment breadth consumers are looking for in categories like furniture, mattresses, and rugs, while limiting our inventory liability. We're also streamlining our own brand portfolio and doubling down on our largest and most powerful home own brand, Threshold.

This summer, we will relaunch Threshold. We'll introduce dedicated shop-in-shop destinations starting in 200 stores. These elevated spaces are designed to feel like specialty environments, reinforcing quality and strengthening brand equity.

We are not adding complexity. We're getting back to what differentiates Target, sharper curation, clearer storytelling, and a compelling presentation in stores. Own brands play a big role in how we deliver style and design, and so does the design collaboration strategy we invented more than 25 years ago.

Culture moves faster today, and so are we. In addition to a few big collaborations a year, we're introducing a new style series in apparel, which gives us a steady drumbeat of culturally relevant, socially driven brand drops.

You'll see a consistent cadence of tightly curated launches designed to create urgency to shop, drive traffic, and keep Target at the center of culture. Our guests expect to find what's new and what's next on every trip to Target.

This allows us to meet that expectation with greater speed and flexibility. That commitment to speed, that extends beyond collaborations. You're also starting to see it in our everyday assortment. Some of you heard this a little earlier, and I'll share it again because it is so important, our fast apparel and accessories model.

Cutting the amount of time it takes to get a product from design to our stores and our app from over a year to, in some cases, a matter of weeks, that gives our teams more flexibility to read the market and respond to emerging trends.

You're seeing this right now in women's swim, where Target holds the number one market share position. We maintain that position by leveraging our speed-to-market process, giving us the insight that we need to deliver the right product at the right time and at an incredible value.

You'll start to see us use this model in other areas of our businesses this year, style made us famous. Now we're pairing it with speed to drive greater relevance. Target is at our best when we're part of culture, not chasing it, but anticipating it.

A year ago, we shared with you our decision to reorganize our hard lines business into Fun 101, celebrating the power of a category that millions count on to create joyful moments for themselves and their loved ones.

Based on the early momentum we've built, our Fun 101 team is making additional space and assortment investments in fandom categories, the things that our guests tell us they absolutely love, including sports, pop culture, trading cards, and more.

Through our new pop gateway destinations, we're creating dedicated in-store platforms to celebrate big cultural moments, from seasonal fandom to viral trends.

We're moving beyond end caps and temporary displays in the aisles to create a reliable, permanent space designed to drive traffic by making Target a discovery destination for cultural moments throughout the year. Since setting these gateways in September, we've more than doubled traffic in fandom categories.

We're also going after a significant opportunity in sports, which are a huge part of culture, with a completely reimagined Fan Central. We're expanding shop-in-shops, elevating presentation, and strengthening our license assortment, all in service of creating a premium, immersive experience for fans.

This is another clear structural decision designed to position Target as the destination for culture and fandom. Beauty has delivered more than a decade of growth for us.

When I led this business from 2017 to 2019, we really started to see the role of beauty shift to something deeply personal for our guests. Today, it is one of our most powerful traffic and margin-driving categories, and we know the four things it takes to delight our guests so that we can win in beauty.

The right product, including stronger prestige and emerging brands, an elevated in-store experience that inspires discovery, knowledgeable service that builds confidence, and loyalty that keeps guests engaged and coming back.

In 2026, we are leaning into all four. We are expanding our prestige assortment, including new and emerging brands.

We're piloting an enhanced service model in select stores right now with team members delivering an intuitive and genuine experience, helping guests discover newness, sharing the latest trends, and answering questions about products.

We're integrating beauty more directly into our loyalty strategy with category-specific rewards that increase frequency and deepen relationships. This fall, I'm thrilled to share that we will introduce Target Beauty Studio in 600 stores.

A new immersive destination which will establish Target as a true beauty authority by pairing specialty level presentation and service with the accessibilities our guests expect from us. Target Beauty Studio represents a structural investment in the category.

Not just a new space, but a coordinated approach to product, experience, service, and loyalty. Food and beverage is one of our most important categories and a powerful trip driver for busy families. We've built this business for how families shop today.

It's curated, it's digital first, and fast. We invested early in same-day services, and our digital grocery capabilities are deeply integrated in order pickup, Drive Up, and same-day delivery.

Today, Target is the fifth biggest digital grocer in America, and we'll continue to innovate in the digital experience and grow Target Circle 360 to drive further separation in digital grocery.

At the same time, we're focused on what's next, strengthening Target's unique identity when it comes to food. We are not trying to be an everything grocer or just another grocer down the street.

Instead, we're building a truly distinctive grocery destination where emerging brands, wellness, and own brands intersect. Put another way, we're bringing even more of our style and design authority to food for families looking for fun, trend-forward options, whether it's for lunchbox snacks or a Tuesday night dinner.

We're delivering newness at twice the industry's rate. Last year, newness drove \$2 billion in food sales. We're on track to double the number of unique items in our assortment over the next three years. 40% of our guests tell us they're looking for something new when they shop food at Target.

When we deliver trend-right newness, consumers respond. As we saw last year in non-alcoholic beverages, with significant newness propelling the category to a 6.5% comp. We're not stopping there.

In May, we will become one of the first national retailers with no certified synthetic colors in any of the cereal that we sell. A decisive step that reflects where families are heading and where Target intends to lead.

We will continue to grow Good & Gather, which is on pace to become our first \$4 billion dollar own brand, leaning into innovation and driving awareness for this powerful brand. We're also investing meaningfully in the in-store food experience because shopping for food at Target should feel distinctly Target.

Delightful, joyful, unlike what you'll find anywhere else. One example is how we're expanding sampling, particularly on weekends, to create more opportunities for guests to discover something new, to try emerging brands, and engage with our assortment in a way that feels energetic and experiential.

Food at Target is a large and growing business. We've grown food by \$9 billion since 2019, but scale alone is not the strategy. The next chapter is about sharpening our distinctive identity through curated discovery, own brands, wellness leadership, and an in-store experience that makes food feel intentional, not transactional.

Over nearly a decade, we've invested in supply chain, store expansion, remodels, and digital integration to build scale and capacity. Now we're accelerating our differentiation because food drives trips. Trips build loyalty, and loyalty drives durable growth across our entire assortment.

When we think about driving more trips and deeper relationships, health and wellness is another space that's critically important. Already, 70% of our guests are shopping wellness categories at Target. This year, we're expanding our assortment with thousands of new items and more exclusives than ever before.

What separates Target is that wellness is a multi-category effort integrated across food, supplements, beauty, and active because wellness is personal. Our leadership in emerging brands, our style and design-led curation, and our commitment to value makes healthier choices feel achievable.

Last year, our wellness businesses combined to deliver a 4.6% comp. During January resolution season, wellness categories accounted for \$2 billion in sales. As we invest in these businesses, Target is uniquely positioned to serve busy families and to build trust and credibility in a more holistic way in this growing space.

Finally, before I move into experience, I want to talk for a moment about the baby category. This is such an important life stage and one of the clearest ways that we build long-term relationships with busy families.

When a family welcomes a new child, where they choose to shop matters. They pick Target, not just for the products that we sell, but for our experience. An environment that's clean, bright, friendly, and safe. A perfect place for baby's first trip out of the house.

This is a category that's gone untouched for years, and there is so much potential in front of us. In 2026, we're elevating our baby experience with deliberate investment.

That includes new dedicated in-store destinations anchored by gift beacons and curated discovery zones that simplify decision-making and create a shopping journey that inspires confidence. We're expanding Cloud Island, one of our most trusted own brands.

We're creating a premium boutique style baby experience featuring partnerships with brands like UPPAbaby, Bugaboo, Doona, and Stokke, strengthening our authority across a range of price points. We're testing a new baby concierge service with specialists helping guests as they navigate this life stage.

All in, this is about earning trust early and strengthening relationships that extend well beyond the baby aisle and beyond the baby life stage. Our merchandising authority is a huge part of what differentiates Target.

Across the examples that I shared, I hope you saw that style and design, they don't live in a single category. They're critical to everything that we do, and that's driving shifts we're making in categories like food and beverage, wellness, and baby to lead with a distinctive point of view.

The way we're leveling up our beauty experience to make Target an even stronger destination in this growing space. The way we're leaning into style and culture in home apparel and Fun 101 to make Target shopping at Target irresistible.

Now, as we turn to our second priority, elevating the guest experience, I want to discuss the moves that we're making in the near term to help bring our assortment changes to life. I'll start with our stores.

Because for millions of people, even in a digitally led world, stores are the single most tangible expression of our brand, and for decades they have set Target apart. But we've heard clearly from our guests and from many of you that our in-store experience has been inconsistent.

Too often we're cluttered, out of stock, or even transactional. So we're making improvements, first upstream at headquarters and in our supply chain facilities to remove complexity for our stores. We are resetting our stores operating model this spring, organizing around three clear principles.

First, we're easy to shop, zoned, organized, in stock, clean, and fast. Second, we're inspiring with disciplined visual presentation and strong category storytelling. Third, we're friendly, grounded in a consistent greet, help, thank framework.

This isn't just a philosophy. We're backing up our commitment to stores with investment, as you heard from Michael, because we've seen where we've tested payroll investments, results improve.

Better guest experience metrics, sales lifts, particularly in apparel and home, gross margin expansion, and growth in store-originated sales. So we're scaling what works because when stores operate at a high level, that lifts everything up.

Not only are we elevating our foundational experience, we're also continuing to innovate. In December, we unveiled a new concept store in New York's SoHo neighborhood, showcasing the absolute best of Target's style and design.

Guests love it, what we're seeing validates the power of merchandising authority with sharper curation that is inspiring more cross-category shopping.

This gives us further confidence in our path forward, leading with the right style and design-led assortment and inspirational experience and the differentiation that Target is known for to fuel discovery and drive growth.

A year ago, I stood on this stage and promised we would modernize Target's digital and loyalty ecosystem, making it more personalized and more intuitive.

Since then, our team has transformed the app experience, strengthened our personalization capabilities, and continued scaling Roundel, Target Plus, and Target Circle 360. Together, these capabilities form our digital growth flywheel, and they are driving consistent growth and deeper engagement across our ecosystem.

Today, our AI-driven personalization engine, powered by Target Circle, generates billions of dollars in incremental sales, delivering targeted offers and rewards that increase engagement and lifetime value.

Target Circle 360 continues to perform strongly by leveraging our fulfillment capabilities and reinforcing the convenience that busy families rely on. Overall, same-day delivery was up more than 30% last year, and our Target Circle 360 membership doubled.

We are pleased with our momentum here, and members continue to shop more frequently, spend meaningfully more, and engage across more categories than non-members. This is a strength that's fueling our food and beverage business, and this year, we're building on that strength.

Loyalty is a constantly evolving space. We continue to move with our guests. For example, we've seen real traction with personalized games and rewards, allowing guests to earn dollars for their next visit or encourage frequency to drive deeper engagement.

So, we're expanding our focus on personalized rewards this spring. We're also offering more member events like Target Circle Deal Days and introducing experiential benefits, including category-specific rewards in beauty and simple moments like Starbucks offers to enhance in-store visits and drive incremental trips.

What we are doing in 2026 will guide even more change in our future as we learn from our guests and work to make our loyalty experience simpler and even more differentiated. The foundation is strong.

What we're doing today is all about refining and scaling the flywheel to unlock even greater impact. Because when product, stores, digital, and loyalty operate as one system, we create durable relationships with busy families.

So 2026 is a year of focused change for Target. Not change for the sake of change, but disciplined choices about where we will compete and how we will win. We know who we are. We're a style-led, design-led, forward retailer that delivers value for busy families.

And when we operate with clarity, with sharp assortment decisions, higher standards in our stores, a distinctive food proposition, clear authority in style-led categories, and an integrated digital and loyalty experience, that's our distinct lane.

We're making clear choices and deliberate investments to win there and positioning Target for durable long-term growth. Jim.

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

Thanks, Cara. Before I dive into the details, I want to get to the punch line right up front. Behind the scenes, we've been working hard to clarify our strategy, and that work is guiding the choices and investments we're making in our business, including planned incremental investments of more than \$2 billion back into our business this year.

While it's still and there's much more change ahead of us, we're already seeing clear signs that our work is paying off. As a result, I'm very confident in our ability to get back to profitable growth this year and deliver strong returns to our shareholders in 2026 and beyond.

With that context, I want to spend a few minutes recapping where we've been and how that's been a platform for growth early this year. While last year's financial results were far from what we expect to deliver over time, I'm proud of how the team performed in the face of multiple challenges.

After we saw an unexpected top-line slowdown in last year's first quarter, we provided updated guidance in our Q1 conference call, and our team delivered against that guidance for the remainder of the year while continuing to invest in our capabilities and preparing our business to deliver improved performance.

Last year's gross margin rate was down about 30 basis points from the prior year, which is strong performance given the fact that we face significant pressure from incremental tariff costs.

Throughout the year, our team did an outstanding job of managing the business through our rapidly changing tariff environment, working tirelessly to mitigate the net impact.

This allowed us to offer outstanding value on our differentiated assortment while also protecting our P&L. Importantly, we're entering 2026 with healthy underlying margin rates and appropriate inventory levels across our assortment.

As I mentioned in our Q1 call back in May, last year's financial results included non-recurring tariff-related costs and inventory actions we took in the face of slower than expected sales. These actions put significant pressure on our adjusted earnings per share, which we don't expect to repeat this year.

Notably, without these costs, our gross margin rate would have expanded last year. An important tailwind to last year's gross margin rate was lower inventory shrink, which delivered about 90 basis points of benefit and brought our shrink rate all the way back down to pre-pandemic levels.

This improvement is a testament to the great work of our team, along with the industry and community efforts to combat retail theft across the country. Our team also demonstrated strong discipline in managing SG&A expenses last year as they found multiple opportunities to enhance productivity and efficiency.

As such, even as we continue to invest in wages and benefits, our GAAP and adjusted SG&A dollars were lower in 2025 than the prior year. More importantly, the productivity and efficiency we gained last year will benefit our financial performance in 2026 and beyond.

In last year's fourth quarter, we continued to benefit from strong cost control and efficiency gains. In addition, our gross margin rate benefited from year-over-year favorability in supply chain and digital fulfillment costs, driven by strong productivity efforts.

Bottom line, in Q4, the team was able to grow Adjusted operating income dollars and adjusted EPS over the prior year, even on a decline in sales.

GAAP operating dollars and EPS were down a small amount as we recognized about \$90 million of non-recurring business transformation costs, primarily driven by a lease termination on excess office space. In addition to encouraging profit performance, we also saw some encouraging early signs of top-line progress in Q4.

More specifically, following a soft start in November, sales trends accelerated meaningfully in December and January. And as we mentioned in this morning's press release, top-line performance accelerated further in February, resulting in very healthy top-line growth in the first month of this new fiscal year.

Before I move on to our guidance, I want to provide some context based on the work we've been doing to refine our strategy and how that work has shaped the investment we're planning this year.

In support of the strategic decisions that Michael and Cara outlined earlier, and our goal to move our business back to sustainable growth, we're planning to reinvest \$1 billion into our P&L this year.

This includes hundreds of millions dollars to support additional store labor and training, along with expenses related to a planned increase in new store openings, growth and remodel projects, and our most ambitious plan for in-store merchandising transitions in more than a decade.

In addition, we're stepping up our spending on brand marketing and technology, including AI. I want to be clear, these investments are not one-time costs, but reflect an ongoing step-up in spending levels as we're investing to win and restore reliable, profitable growth to our business.

While \$1 billion is a major investment for our business, we're funding it by leveraging a number of beneficial factors, most notably from the annualization of about half a billion dollars in one-time tariff and inventory adjustment costs in 2025.

In addition, we'll realize about \$200 million in savings from last year's headcount reduction at headquarters and the field team changes we announced in February.

Beyond those discrete savings, our team has adopted a continuous productivity mindset and identified a host of productivity opportunities that will deliver additional savings to the P&L. With that context, I want to turn to our guidance for the year, starting with the top line.

For the full year, we're planning to grow net sales in a range around 2% versus last year, including a small increase in our comparable sales. On top of comp sales, we'll benefit from the opening of new stores, and revenue from Roundel and from third-party sellers on Target Plus.

In total, those sources are expected to add more than 1-percentage-point of growth this year. I'll add that we're planning for top-line growth in every quarter of the year.

On the operating income line, we're planning for a 2026 rate that's approximately 20 basis points higher than the 4.6% adjusted rate we earned in 2025, as the savings opportunities I outlined earlier are expected to fully fund our P&L investments.

Altogether, based on our expectations for the top line and operating margin, we're expecting to generate GAAP and adjusted EPS in a range from \$7.50 to \$8.50 in 2026. The center of this range represents healthy growth of 5%-6% when compared with last year's adjusted EPS.

I want to pause and take note of the significant effort of the team, which has allowed us to enter this year laser-focused on delivering on our strategy and fully funding our growth-driving initiatives while also delivering modest margin expansion for the year.

One other note. While we're not planning to provide ongoing quarterly guidance, I want to share some color on expected timing throughout the year, as we're planning for stronger profit growth in the back half of the year based on three primary timing considerations.

First, regarding shrink, we'll be lapping favorable inventory counts and the resulting accrual adjustments that occurred in the first half of 2025, which will then moderate in the back half of the year. For the full year, we expect this year's shrink rate will be in line with last year.

Second, this year's step-up in CapEx will drive higher start-up costs for new stores in the first half of the year. We're also expecting to see some pressure on the D&A line resulting from accelerated depreciation on a larger number of remodels, most notably in the first quarter.

And finally, the expected timing of some SG&A expenses will be more front-loaded compared with last year. Based on these factors, we expect that our first quarter GAAP and adjusted EPS will be flat to up slightly from last year's adjusted EPS of \$1.30, followed by accelerating performance later in the year.

This expectation is entirely driven by the timing considerations I mentioned above and isn't reflective of underlying performance differences by quarter. Turning to capital deployment, our priorities remain the same as they've been for decades.

We first look to invest fully in our business in projects that meet our strategic and financial criteria. Second, we look to support the dividend and build on our record of annual dividend increases, which we've maintained every year since 1971.

And finally, we look to deploy any excess cash beyond those first two uses to share repurchases within the limits of our middle A credit ratings. Regarding our first priority, we continue to expect that full-year capital expenditures will be approximately \$5 billion in 2026, up more than \$1 billion from last year.

While spending in support of our supply chain and technology will increase, the bulk of our CapEx will continue to be focused on our stores, which fulfill more than 97% of our sales. This year, we're excited about our plans to open more than 30 new stores.

Nearly all of them will be full-sized. We're also ramping up our remodel program. We expect to complete more than 130 full-store remodels in 2026. We're expecting a strong return on those new store and remodel investments, just as we've seen in recent years.

I also want to note within this CapEx, this year's CapEx plan, more than \$1 billion will be spent in support of our food and beverage business. That's more than double the amount we've invested in this business in recent years.

Because we offer a unique and differentiated assortment of national brands, own brands, and emerging brands, the food and beverage category has served as a reliable growth engine over time.

Take last year. Even in the face of a challenging top-line backdrop for the company overall, our food and beverage sales continued to grow, led by mid- to high single-digit growth in both non-alcoholic beverages and candy.

Looking back over a longer period, food and beverage sales have grown more than \$9 billion since 2019, translating to an average annual growth rate of more than 8% per year, far outpacing the rest of our assortment and the industry.

Given that success and the critical role food plays in guest trips, it has earned more space in our existing stores, in our new stores, and in our supply chain.

Turning next to the dividend, we plan to recommend that our board of directors approve a small increase in our quarterly dividend later this year, resulting in another annual increase in 2026.

And finally, once we've fully supported our first two capital priorities, we plan to repurchase shares to the extent that's supported by our business results and forecasts and can be accomplished within the limits of our middle-A credit ratings.

Now, I want to spend a minute on our expectation for Target's longer-term financial performance. While we're planning for low single-digit top-line growth in 2026, we expect that we'll further accelerate to the low to mid-single-digit range over time.

With this level of top-line expansion, we also expect to increase operating margin rates from the relatively low levels we've seen over the last few years. This rate opportunity starts with growth, which drives leverage on many expenses, in contrast to recent years where we faced rate deleverage on lower sales.

Beyond leverage, we're continuing to expect rapid growth in margin-rich revenue sources, including Roundel and Target Plus. With robust capital investments in both our infrastructure and technology, we expect to further boost productivity and create additional fuel for our business.

We expect that the aggregate tailwind from these profit rate opportunities will exceed any P&L investments we will choose to make, allowing operating margin rates to increase.

As we've said consistently over the years, our goal is to move to the appropriate operating margin rate that will sustainably maximize profit dollar growth, and we plan to continue on that journey in 2026. We often get the question of whether we believe operating margin rates can get back to pre-pandemic levels.

The answer to that question is a definitive yes. We believe the optimal rate is well above where we performed last year, and until we reach that optimal rate, we have the opportunity to grow operating margin dollars more quickly than sales over the next few years.

Now I want to hit on something that Cara talked about earlier, which is the importance of differentiation in our business. It's a point worth reiterating, but I also want to approach it from the standpoint of the assets we can deploy in pursuit of that strategy.

As one of the largest retailers in the US, we benefit from scale similar to our larger peers. Importantly, because of our differentiated strategy, our assets may look different than our competitors, but we have exactly what we need to compete and succeed.

At the top of that list is our stores, which are well-located, well-maintained, and generate a lot of cash. Excluding a very small number of exceptions, nearly all of our stores generate strong positive cash flow, with the vast majority delivering double-digit EBITDA margins.

Put another way, we have a very healthy base of store assets that benefit from the strength of our brand and differentiated offering while powering our digital fulfillment model.

We have a strong pipeline of new stores planned for 2026 and many years to follow, which will allow us to reach new guests in neighborhoods that we currently don't serve. Already today, our base of nearly 2,000 stores is located within 10 miles of 75% of the US population.

And we expect to further extend our reach over time. Beyond our stores, as someone who came from the packaged goods space, I have huge appreciation for Target's product design, development, and sourcing capabilities, which allow our merchant teams to innovate and deliver newness at a scale across all six of our core merchandise categories.

Because of these unique capabilities, our portfolio of own brands generates \$30 billion of sales, delivers superior gross margin rates versus national brands, and reinforces our differentiated position in the marketplace. Finally, on the digital fulfillment side, our strategy and assets make us both fast and efficient.

All three of our same-day services, whether we're talking about Drive Up, in-store pickup, or rapid same-day delivery through Target Circle 360, are already wicked fast, and they're getting faster.

Importantly, we know that our guests love these services because they receive some of the highest Net Promoter Scores of any service we provide. As a result, our same-day services generated more than \$14 billion in sales last year, accounting for two-thirds of our total digital sales. I want to pause on that.

Two-thirds of our digital sales are in services that fulfill same day. We're investing to make those services even faster and more efficient.

For the other one-third of our digital sales, which are in the form of brown boxes delivered to your homes, most of our volume is in markets where we've already enabled next-day fulfillment. We plan to expand this capability into many more markets this year. I wanted to lean into this point.

We are already fast, we are cost competitive, and we're continuing to get more efficient, and we own all the core elements of our digital fulfillment. As I mentioned in this meeting a year ago, when you look at all the elements of our digital ecosystem holistically, digital growth is healthy for our business and for our P&L overall.

When I take a step back from a strategic perspective, we have all the critical assets in place, and our plans are centered on investing in and better leveraging those assets in the years ahead.

Let me close. As we've been working hard behind the scenes in the face of last year's challenging performance, I want to assure you of two things. One, we haven't stopped investing and have kept our balance sheet very healthy.

Two, we've been doing a ton of work over the last several months to bring strategic clarity to our business while stepping up our productivity and efficiency efforts.

As you heard from Michael and Cara, you're going to see a lot of intentional change and investment beginning this year, and I am confident that with those changes, we're well-positioned to deliver profitable growth in the years ahead.

With that, I'll turn it back over to Michael for some closing remarks.

Michael Fiddelke - Target Corp - Chief Executive Officer

Thank you, Jim, and thanks to all of you for spending time with us today. I want to close where I started. This is a new chapter at Target, and it's all about growth.

We're clear on the lane we're uniquely positioned to own in retail, one where style, design, and value shine through in everything that we do. You heard that clarity in what we shared today.

A purpose that's brought to life by being the most delightful experience in retail, a sharper focus on the guests who power our growth, and strategic choices that play to our differentiated strengths.

Those choices define the four priorities we're advancing together, leading with merchandising authority, elevating the guest experience, accelerating technology, and strengthening our team and communities. You've seen and heard how those priorities translate into action.

In 2026, guests will feel bold change from us, and it's not change for the sake of change. It's purposeful change in the categories and experiences where we have a real right to win and where our guests are asking us to raise the bar.

You also heard the level of investment and the discipline behind it. We're making a more than \$2 billion incremental investment this year, which includes an additional \$1 billion in capital for new stores and remodels, \$1 billion reinvested in our P&L to elevate the guest experience.

Now, we know we have work to do, and the team and I are excited to get after it. A big thanks to Team Target for all their hard work leading up to today and for the passion they bring to their work every day.

It's our team that's at the center of everything we've shared this morning, and I'm so proud of what we're building together. We're playing our own game. We're confident we're on the right path, and our team is moving fast to build on the momentum we're already seeing.

We're excited about this new chapter and look forward to having all of you on this journey with us. With that, I'll ask Cara and Jim to join me back on stage so that we can get to all of your questions.

QUESTIONS AND ANSWERS

Unidentified_Company_Representative_1

We will now transition into taking questions from our audience. If you have a question, please raise your hand. When you are called on, please stand and a team member will bring you a microphone.

After you've asked your question, kindly return the microphone to our team so that we can get to as many people as possible. Thank you.

Michael Fiddelke - Target Corp - Chief Executive Officer

All right. I think John is going to play facilitator here with Justin. Is my mic good, guys? Clearer? Great. All right, let's go.

All right. Let's go ahead and kick things off with Spencer at Wolfe Research. If you can raise your hand, we'll get a mic runner to come over to you.

Unidentified Participant

Great. Thank you. I'm just curious if you could frame the \$1 billion of investment that you're making back into the stores. What are the biggest buckets there?

How much in labor? How much incremental do you need to invest there? Then also in the remodel program, like, what are you guys thinking about for the out years? Do you accelerate from the 130 you guys called out, and what do you think the lifts look like there as well?

Michael Fiddelke - Target Corp - Chief Executive Officer

Yeah. Well, I'm happy to start. Jim, feel free to build. As we look at that \$1 billion investment, I think it's just important to recognize that's a deliberate choice. It's actually where we started with the plan for this upcoming year to say,

All right. If we've got a crystal clear strategy, what do we need to do to move the needle against that strategy? What that yielded was the investments that we shared today. You heard Jim talk about \$hundreds of millions in store payroll.

That's critically important. I mean, you heard, I hope, the passion that we have to make sure that our experience is elevated and delightful every single time a guest comes to our stores.

We need to make sure that our team has the resources that they need to provide that experience, investing in payroll is a key way to provide our teams with the resources to deliver that experience.

The other things that you saw on the slide that was up when Jim was talking, investment in brand marketing, investment in technology and AI, that goes hand in hand with great experience.

We know those tech investments pay off with stronger experience, whether that's digital or whether that's in store when we're setting up our team to free up tasks so that they can support our guests even more.

Maybe I'll just touch on remodels briefly, cause remodels are important. I mean, I've been at Target 23 years, I've seen our remodel program ebb and flow.

The commitment to make sure that we're remodeling our stores with pace is an important one because we know, our guests tell us clearly, when we remodel a store and bring our latest and greatest experience to bear, the response is reliably strong.

We see 2%-4% lifts in year one. We see lifts in year two as well. Getting back to a more aggressive pace of remodels brings some of the stores that frankly are due for a little bit of love back up to our current and greatest thinking.

The 130+ full-size remodels that we do this year are a good step in the right direction. You know, not bad rule of thumb is you can expect us to remodel a store every 10,15 years. A little sooner if it's shopped heavier, a little longer if it's not shopped as heavy. Jim, what did I miss?

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

I mean, I'd just emphasize, we talked a lot about the importance of our stores. You'll see the majority of our investments go towards the stores, whether it's, whether it's actually in the guest experience, in the store labor, but also in the transitions, the new stores and remodels. The bulk of that investment will go towards the stores that are more guest-facing as well.

Michael Fiddelke - Target Corp - Chief Executive Officer

Maybe just to build once more on that. You heard throughout what Jim and Kara shared. New stores matter a ton. Bringing a new Target store, cause the store matters so much to our guests.

I mean, the thing we hear played back to us is the delight when we bring a new Target to a new market that doesn't have one or to a growing suburb where the drive's a little bit longer than you'd like it to be.

We see real share of wallet gains when we open up a new store, and those financials are strong. Remodels, you heard me talk about. The thing that should feel slightly different this year is the broad-based chain change coming.

The 2,000 stores that we're going to do. There will be more newness across the assortment in those stores in the next year than we've seen in any year in the last decade, and that's a part of where that investment is going.

There's a little CapEx and a little expense to make sure that we're making the change across assortment that you heard us describe and some of you got to see some of in person through the vignettes this morning.

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While the microphone's over there, why don't we go to Michael Lasser on the end?

Michael Lasser - UBS AG - Analyst

Thank you. It's Michael Lasser from UBS. Thank you so much for taking my question. A lot of the elements of the plan are not that dissimilar from what we saw at Target around 10 years ago.

What is different, and what structures are being put in place in order to ensure that the growth here will be sustainable over the next few years and not just lead to a temporary improvement, only to lead to a bit of a drop-off after that? You've talked about some of the recent wins and gains. What are driving those? cause the plan seems to be only as strong as the weakest link. Thank you.

Michael Fiddelke - Target Corp - Chief Executive Officer

It's a good question, Michael, I'll start by saying, like, to be crystal clear, we're playing the long game. To play the long game well in retail, you have to be focused on exactly who you are. Again, if there's one thing I hope you take from today's conversation, we are crystal clear on how Target wins.

That's a North Star that we'll hold on to tightly. That's not just a this year thing for the changes that start this year or even the changes we have in 2026. We're going to come back to knowing who we are in the years to come. You know, I've seen Target at our best. I've seen us when we're not at our best.

The ingredients that have always fueled us at our best are when we're design-led, when we're winning with differentiation, and when our experience is top-notch. If we keep pouring decision-making and investment against those priorities, I've got the confidence that we're building a foundation that won't yield just one month of good trends or one year of growth, but sustainable, profitable growth over time.

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Why don't we go to Kate McShane in the front row here next?

Kate McShane - Goldman Sachs Group Inc - Analyst

Thank you. Kate McShane, Goldman Sachs. It seems like a lot of the changes that we saw this morning are coming post-June, so I was wondering why we shouldn't think about the same store sales differently by first half versus back half.

Michael Fiddelke - Target Corp - Chief Executive Officer

Jim, you can add a little more on kind of what we're expecting quarter by quarter. I'd think of the change as starting now and then building over the course of the year. I mean, there are some categories where we've already gotten to see the early returns on some of the change that we've made.

Beauty, if you walk our beauty assortment right now, it's set with 3,000 new items, 60 new brands, and the early response to that type of change has been really positive so far from guests.

I like to think of the year as us having these early proof points that thankfully are indicative of some of the change that we have planned through the balance of the year, and every category is going to move at a different pace.

It'll take us a little longer in a category like home to get to where we want to be, even though we'll have a great infusion of a reinvention of Threshold this year. Some other categories, like beauty and food and beverage, we're already after it.

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

I would just maybe add to this coming in, we weren't able to share all the changes today. We do have a consistent cadence as we think about that the store changes to all 2,000 stores, places that we haven't touched in a decade.

You know, if you think about the back of the store, we haven't really remodeled and touched that floor pad in over a decade. Those changes are happening on a consistent cadence kind of throughout the year. To Michael's point, you'll continue to see that build. Some are already done, but much more is ahead of us, really starting now.

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

Just as we talked about, like, a continuous productivity pipeline, you should expect us to have continued newness in our stores and merchandising transitions.

This is just an evolution that will continue. It's not just even about the second half, it's about 2027 and beyond. It's constantly renovating and refreshing what we have in the store.

Michael Fiddelke - Target Corp - Chief Executive Officer

The other thing that you can expect that we'll be committed to is we'll learn. We're not going to get every single change right this year, but you're going to see change, and we'll iterate from there in the quarters and years that follow.

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Great. Let's go to Simeon next in the front row, middle.

Simeon Gutman - Morgan Stanley - Analyst

Hi there. Simeon Gutman, Morgan Stanley. If you look back at the financial performance of this business, it's been cyclical and somewhat variable, and I think a lot of that is due to merchandise authority that has waned at times.

I know a lot of the focus is on recapturing it, and I think today's presentation makes a strong case for why you're going to recapture it. It's more on how do you keep it.

Michael Fiddelke - Target Corp - Chief Executive Officer

At the risk of being a broken record on this one, clarity of strategy that we hold onto is the most important thing, Simeon. Like, we need to stay centered on who we are, and I feel more aligned as a leadership team and as a company on what our unique path is to win than I've probably ever felt in my 23 years.

It's on us to make sure that we don't lose that. It's, it's a fair criticism of some of the categories where we have fallen off the leadership role, where we used to be strong and a pace setter in a category like home.

We haven't been for the last few years, but I'm confident we've got the right team, the right plans, the right agenda to drive change there that'll get us back to a, to a better place.

You have my commitment that we won't ever forget who we are, and we'll lean in to where we uniquely win, not just in 2026, but in the years to come.

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All right, let's go to Chris Horvers there in the second row.

Chris Horvers - - Analyst

Thanks. Good morning, and thanks for taking my question. If you look back on the history of retail, discretionary retailers that see a period of negative comps tend to over earn on gross margin. Clearance levels go down to low levels because they tighten the inventory markdown rates.

As you think about coming back to positive trends in discretionary categories, often we've seen debt on the margin side come through.

My question is to what extent are you baking in more normalized promotion levels, more normalized markdown levels into the guide? If the answer is the offsets the tariff costs, can maybe dimensionalize how much was actually explicit tariff costs versus levels of clearance post-tariff?

Michael Fiddelke - Target Corp - Chief Executive Officer

I mean, I actually think about it differently, Chris. I think about the times when we've seen slowdowns in discretionary, they usually come with a rough P&L because the excess inventory and clearing it has hurt us. We like to have the business in chase mode.

We'd love to see demand just a little ahead of what we've bought to. That's kind of guiding how we're thinking about getting back to growth in some of those categories and doing it wisely. When the high margin categories, think apparel and home, are humming on the top line, they throw off a ton of profit for us.

I get excited about kind of bringing back to life some top-line performance in categories that haven't seen enough of it over the last few years.

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

Yeah. In terms of the some of the overlaps we saw from 2025, when I talk about tariff-related costs and inventory adjustment costs, there was a significant portion of that was inventory adjustment costs related to the significant drop-off we saw in sales in Q1 last year, which we don't expect to repeat.

As Michael said, one of the most important things is actually just getting the forecast right and buying accordingly. It's easier to chase, harder when you miss the other way. We're making sure we're appropriately planning that way.

Michael Fiddelke - Target Corp - Chief Executive Officer

I mean, the overarching takeaway for all of that is we got to have the growth. Like, there's only one path. It's top-line growth and top-line market share growth. All the decisions we're making are betting on the right levers to pull to get that growth.

Once we have that, our ability to put together the rest of the P&L that's respectable is quite high. I've got a ton of confidence there.

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Let's go on the left side or on my left side here with Mike Baker.

Michael Baker - *DA Davidson & Co - Analyst*

Thanks. Mike Baker from DA Davidson. One criticism maybe is that, it's the same management team. You know, I think at some point and some investors wanted people from the outside. Clearly, you know, there's a lot of change going on here. I mean, that was very clear from the day.

I guess, I don't really know how to ask this, why now? Why suddenly? I mean, it's the same faces, new strategies. What happened to all of a sudden realize, oh, we need to do something different? Thanks.

Michael Fiddelke - *Target Corp - Chief Executive Officer*

Yeah. I've got a couple of thoughts there. One is knowing who we are as a company, I think is a real advantage. Understanding how the levers of the business work and when Target's at its best, what that's looked like, I'm proud to bring that to stepping into this role for sure.

The second thing I'd offer is that I think it's on all of us as leaders across the company to step in with candor and assess where are we at and what do we need to do about it, and that's what we've done.

That means stepping back and taking a hard look at everything and drafting off of the strengths that we have, making sure we're maximizing the assets that serve us so well, and saying where it wasn't good enough and what are we going to do about it to make it better.

A lot of what we believe that looks like for 2026, we got the chance to share with all of you today. You know, maybe the last thing I'd offer is it's always important when building a team to have a healthy balance of folks like me that have grown up with over two decades of time at Target and folks that can bring in a fresh perspective, like Jim's certainly done over the course of the last year plus.

If I look, you know, across my leadership team just for starters, I think over half the team is either new to role or new to Target in the last 18 months. I feel really good about the team that we'll take the field with, for the leadership team and across all 400,000 of our incredible team members that are going to power the growth we expect in 2026.

Unidentified_Company_Representative_1

Great. Next, let's go to Rupesh here in the front row.

Unidentified Participant

Good morning, and thanks for taking my question. You guys went through a ton of new efforts. You know, we walked through all the merchandising displays.

What gives you overall confidence to be able to execute on so much at the same time, whether it's a beauty reset, baby reset, some of the home efforts? Just curious to some of the guardrails and confidence to be able to do it all.

Michael Fiddelke - *Target Corp - Chief Executive Officer*

It's actually a really important question cause a lot of change comes with a lot of change to execute well. You know, you guys have seen it, I'm sure. Sometimes when we have the most change in a part of the store, it's when we might have the bumpiest in-stock experience or a lot has to go right.

We are betting on the change. We believe that even though there's a lot that we're working every day on across the team to make sure we can manage through the execution of, we think the upside of being aggressive and making the changes that we know and have the early proof points of success that tell us are going to drive growth, leaning into that change, makes sense.

It's a totally fair question because it's something that occupies a lot of our mind share is how do we make sure we're setting up the team to execute a big year really well.

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

I would just maybe pile on. You know, being a few weeks into my role, it's really clear that one of my top three priorities is execution for that reason, because we can have the most amazing, you know, get a stronger assortment point of view, be really distinct, which we're really focusing on sharpening our differentiation.

If we can't execute it, we can't actually bring it to life, and that's an all play, thinking about how we actually bring an idea all the way through execution. Top priority, and I will say we have teams, and extra teams, frankly, in this moment focused on execution because of the amount of change that we have in place this year.

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Next let's go to Chris at BofA.

Chris Nardone - Bank of America - Analyst

Thank you. Chris Nardone, Bank of America. Thank you, guys. What are the changes, if any, you're making to the overall pricing architecture across each of your key categories? Do you think your current product value equation needs to be refreshed for over the long term to return to structural growth?

Michael Fiddelke - Target Corp - Chief Executive Officer

Yeah. I'll start and hopefully leave you some here, Cara, cause I've got some passion on this topic. I've led the pricing team twice in my time at Target.

We've got to be sharply priced, the infrastructure we have in place to make sure that happens, I mean, it's a great example of having both an incredible team and a ton of technology that lets us know where are we dialed in price-wise versus the competition at a specific store level.

For us, the value equation is always multiple parts. It means being incredibly well-priced every day, it means making sure that that price is connected with newness and differentiation because we want.

When you're, if you've grabbed a Starbucks and you're walking through a Target store to see what's new on our floor pad, we want to draw you in with product like you saw for apparel that's coming, that's differentiated, that's high quality of real value, and we want that smile to get bigger when you flip over the price tag and see the value that's there.

I feel really good that we've got the right teams on the right adjustments. Certainly in the last year with some of the volatility, we've had a team working really hard to make sure we're well positioned. For us, it's always not just price that delivers true value.

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

You heard some of that this morning as we think through some of the foundational work that's needed in businesses like home, where we are looking at that price value equation. You know, I love using an example like Cat & Jack.

Cat & Jack, phenomenal kids' clothing brands. We design the leggings with reinforced knees. We really design amazing style. They're \$5. By the way, you can return it. That is amazing.

That's the value equation that we expect of all of our own brands. We go category by category, some of the foundational basics in home and apparel, you'll continue to see us evolve and make sure that we can provide that sharp value equation across all of our products.

Michael Fiddelke - Target Corp - Chief Executive Officer

I mean, even just this last fourth quarter, we talked about lowering price on 3,000 frequently purchased items. When we see the opportunity to make adjustments that we think are the right ones, we'll do it.

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Next let's go to, Corey in the front row here.

Corey Tarlowe - Jefferies LLC - Analyst

Thanks. Corey Tarlowe from Jefferies. I actually wanted to double-click on the pricing expectation for 2026. I ask that in the vein of Jim, your former employer, publicly stated that they're going to be taking prices down by up to 15%.

I'm curious about how you think about the trajectory of pricing within your algorithm for this year. On the long-term framework, we had previously talked about, I think, mid to high single digits for EPS growth. Is that a reasonable anchor as well to still think about? Thanks so much.

Michael Fiddelke - Target Corp - Chief Executive Officer

Yeah. I'll start a little bit on the pricing front. Jim, if you want to talk about what profit looks like over time. I mean, it's our role to make sure we're bringing the most value we can with every pricing decision that we make, you know, even against the tariff backdrop of the last year.

You heard us say time and time again, price is the very last lever we want to pull because we know price matters to consumers on a budget. That's the mindset we'll have for however the variables unfold this year.

Any place we can bring more value through lower price, we'll lean in and do it. We know that for us, for Target, that differentiation and style and quality has to be right there along with a sharp price.

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

I'd probably add two things. One, first, just on pricing on sort of the same products, like, we are very competitive on pricing and have a whole lot of technology behind that to make sure we're always competitive.

Relative to the EPS point, if you do the math, if we get to low to mid-single digit sales growth with margin expansion, that basically gets you to the same place as we talked about last year.

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All right, next let's go to Paul Lejuez.

Paul Lejuez - Citibank Cameroon SA - Analyst

Hey, thanks, guys. Paul Lejuez, Citi. Curious if you could talk about the sales guidance for this year. Comps up slightly, I think is what you said. Can you talk about how digital versus stores would look around that, you know, relative to that guidance?

Also, by category, which will be the leaders, which are likely to be the laggards, how you guys are thinking about it. Just separately, is \$5 billion the new CapEx base case that we should think about go forward? Thanks.

Michael Fiddelke - Target Corp - Chief Executive Officer

I might head Jim off at the pass a little bit on this question because we aren't going to guide specifically stores versus digital or by category. Importantly, I think the key point here is, like, the guest doesn't think about Target by channel either.

We're focused on driving enterprise sales. The guest gets to choose today how they want to receive all that incredible product from Target, and we love it. When it's an in-store trip, you can hear us say we're betting big on stores mattering and a differentiated store experience being part of our growth algorithm going forward, no doubt.

Having been in the shoes of a busy parent household myself, like, sometimes you just need the very best of Target brought right to your doorstep, and that's when same-day delivery, if you're a Target Circle 360 member, can bring the very best of Target right to your door in no time flat.

If you've got, I've been there, a screaming toddler in the back seat, like, not every day is a let's spend some time to go through the store day. You can throw all the orders you want at our stores, and when two hours we'll have them ready for you to pull in the parking lot and have that Drive Up trip fulfill you.

When we think about it, we're trying to do it through the lens of putting ourselves in the shoe of the consumer, what do they need right now, and we want to make sure we've got the options to support them for whatever their need state is or however they're choosing to shop today.

You know, in recent times, we've certainly seen the growth in the digital business. I'd expect that to continue, but we're betting on stores too.

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

Related to the capital investment point, like I said, my first capital priority, we're always going to continually invest in ideas that give us strong financial and strategic return.

We've talked in the past, and we mentioned again, we have a great pipeline of new stores coming, and we feel great about those returns as we do with the remodels as well. Obviously, we're going to continue to invest in technology as well to make sure we're at the forefront as we talked about earlier today.

Michael Fiddelke - Target Corp - Chief Executive Officer

You heard Jim say this. It's the benefit of protecting a strong balance sheet. That gives us the capacity to invest through thick and thin. We're going to chase the returns. We could not be more excited to put \$5 billion to work this year cause we're excited about the returns.

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Next, let's go to Kelly Bania in the front row.

Kelly Bania - Bank of Montreal - Analyst

Thank you. Kelly Bania from BMO Capital. First, just wanted to clarify the payroll investment that you're talking about, how much of that is hours versus wages? Then wanted to ask a bigger picture question about food.

I think I heard double the CapEx to that category, 20% growth in square footage. Just curious what that's coming at the expense of in terms of square footage in the store and how you think about mix within this algorithm the margin mix specifically.

Michael Fiddelke - Target Corp - Chief Executive Officer

I'll maybe start on the team investment side and if you guys want to talk about some of the choices that we're making within the store and, you know, the excitement we have for supporting a category that's been on a tear for us in food with even more investment going forward.

When you think about investments, wages or hours, the answer is yes. We'll continue to invest in the team. I think our long history of team investment has served us so well cause it's the team that brings to life our strategy every day.

I'd be remiss not to give just a giant shout-out to the team that's driving the momentum that we're starting to see in the business right now. You can expect us to continue to invest in things like we've done in the past, wages, benefits, programs like the Dream to Be program that so many of our team members have been able to take advantage of.

We want the team to have more hours to use on the sales floor. Those more hours are specifically focused on driving an even better guest experience. It'll be both, Kelly.

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

On the margin side, Kelly, to your last question, I would think about it in two ways. One is we also continually drive productivity within the food business, especially with all the growth we've had over the last several years.

We're gaining more productivity, and we talk about internalizing our fresh delivery network. We're driving more and more margin expansion. Candidly, we look at it more like a portfolio.

Food drives traffic to our store. It opens the box for our guests to come into our store and explore the rest of Target. We're very comfortable to keep leaning into food because we know that drives traffic.

Michael Fiddelke - Target Corp - Chief Executive Officer

If you think about for some of these stores that we haven't touched remodel-wise in, you know, it might be 15 plus years, some of the stores that we're doing now, and what our food business looked like 15 plus years ago, I mean, it was a shadow of what it's turned into now.

We get excited to be able to arm those stores with the right resources to support a food business that we know has even more potential than we've let them unleash.

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All right, let's go to Peter Keith here.

Peter Keith - *Piper Jaffray Inc - Analyst*

Thank you very much. Nice presentation today. Peter Keith with Piper Sandler. Just following up on a little about mix, but broadly on gross margin, how should we think about gross margin in 2026?

It sounds like there's some tariff lapping that might help. Longer term, how should we think about gross margin? Could we see Roundel, Target Plus drive expansion, or should we think about gross margin flattish as you invest in price?

Michael Fiddelke - *Target Corp - Chief Executive Officer*

Yeah. Your question hits on a lot of the variables we're watching. Jim, you want to talk about margin?

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

Sure. Yeah, there's probably two dynamics. I'll take 2026 then the long term. 2026, yeah, you should expect gross margin expansion because we're lapping the costs that we're lapping last year primarily sit in gross margin because those were tariff-related costs and inventory adjustment costs, markdowns and clearance.

Whereas the investments we're making, a lot of that sits in SG&A when you think about stores, technology and marketing. There's a bit of dynamic that's happening in 2026. On an ongoing basis, I think you hit on the right points, which is including merchandising, you know, mix management and expansion.

We should have positive tailwinds from, you know, things like Roundel for sure. As you scale, as we say, growth drives scale, that drives a lot of productivity through our supply chain, which sits in the gross margin line as well.

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Let's go to Joseph Feldman in the front row here.

Joe Feldman - *Telsey Advisory Group - Analyst*

Thank you. Joseph Feldman, Telsey Advisory Group. Wanted to ask, you guys talked so much about merchandising and everything. On the supply chain side, how are we thinking about that in terms of investment for the future?

Presumably, some of the labor in the stores is going to be helping on the supply chain, but have you thought about centralization? You didn't mention the word marketplace today. That was a big topic last year, so maybe that whole topic. Thank you.

Michael Fiddelke - Target Corp - Chief Executive Officer

We can maybe come back to marketplace separately, but supply chain plays a critical role in all the elements of the strategy that you just heard us talk about. Like, all of that great new product has to find its way to the right store at the right time for us to be positioned to capitalize on it.

The work we're doing on store experience, you guys will get sick of me talking about we're going to get more in stock, because it is a journey that we've been on that's encouraging, the arrow is pointed in the right direction, and we still haven't arrived.

The supply chain plays such a critical role in helping us move in the right direction on that journey as well. You know, we see opportunity for supply chain to play that critical role. We also see the opportunity for efficiency within supply chain.

You heard Jim touch on that a little bit in the answer to the last question. We know through the use of technology, we know through the use of some of the process and teamwork that we're doing across the supply chain right now, we can get those better business outcomes, and as we grow and scale, get them even more efficiently.

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

Yeah, maybe I would add, I mean, in terms of our supply chain, we think about it holistically as well, so it's not just, you know, we have the supply chain facilities that replenish our stores.

I would think that that is one of the biggest drivers of making sure we can seamlessly get our products to the stores and replenish as quickly as possible.

The important thing is, for us, stores are our digital hubs, so we are leveraging stores to drive that and power digital fulfillment. We feel great about where we sit because we have 2,000 stores that are well located and then have access to most of the population.

Michael Fiddelke - Target Corp - Chief Executive Officer

To Jim's point, it's an important one, so I'm going to underline it. Store investment is supply chain investment for us because of the role the stores play, and so it's not just the stuff that hits upstream. That's exactly the right point, Jim. Do you want to talk about Target Plus, Kara?

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

I was going to say, I mentioned in my remarks when I was talking about home Target Plus. We shared last year's bold growth ambitions. We're well on our way, feel really pleased with the performance of Target Plus Marketplace.

Really, as we think about it's really an extension of our assortment strategy. The team is accelerating in places like home, where we've pulled back on big and bulky products in the stores in some cases.

We're leaning full speed ahead in on categories like furniture, mattresses, rugs, places where the guest expects a broader assortment, and we're able to deliver that style and design authority, but do it in a more inventory and cost-efficient way.

We didn't talk a lot about it today. Home is one example, but we're really leveraging, the growth of Target Plus across our entire merchandising portfolio.

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

You saw from this morning's earnings release, you know, we posted more than 30% growth in Marketplace last year, and we see that accelerating. We see great momentum in Target Plus Marketplace. If we excluded, it wasn't by design. It's just we have so much to cover, but we're excited about the growth in Marketplace

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Let's go to Greg Melich right here in the front.

Greg Malick - Evercore ISI - Analyst

Hi. Thanks. Greg Melich with Evercore ISI. The real theme is traffic, it seems like, getting that customer back, engaging with frequency. I guess if you could frame or two parts to the question. One, Jim, with the guide this year, do we expect traffic to be positive as part of getting to that low single-digit growth?

Second, if we are varying different from that, so let's say the comp range is 0-2%. One, is that a good number to use for this year's earnings range? What would you do? What's the variable margin if we end up doing better than that and if we end up doing worse?

Michael Fiddelke - Target Corp - Chief Executive Officer

Maybe I'll start by just talking about the importance of traffic in general. You've heard us say before that growth that comes fueled by traffic is the growth that we like the most. I think it's the most durable and sustainable growth.

We're laser-focused on improving traffic trends that we are not proud of in the last year. We need to get to a better place. We're seeing early momentum in the right direction there. The stronger performance we saw in the back half of Q4 was encouraging.

We shared, again, one month does not make a full year trend, but we're encouraged by the healthy sales growth we've seen in February, and that's been broad-based, and traffic's played an important role there.

We think that's momentum on which to build, Greg, and the whole store plays a role in driving traffic. You can come to Target cause your kids outgrew their Cat & Jack and you need to refresh the wardrobe.

You can come to Target because you're having the family stay with you and you want to freshen up that living room, and we're a destination in the home category.

You can come to Target in categories like food and beverage that work harder than ever for us to reinforce frequency of trip. Traffic couldn't be more important. When I think about growth, I'm kind of stapling growth and traffic conceptually together always.

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

Related to, I mean, we deliberately provided, you know, we have a range centered around 2% for net sales growth. If you think about it, you know, for a \$100 billion company, it makes the math a lot easier, so every 1 point on either side's worth about \$1 billion of sales, and you just flow that through.

We don't talk about our exact, like, variable profit margin rate, but you get leverage. Obviously that return is going to be higher than our actual operating profit margin rate because we're going to get leverage from that increase in sales.

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While we're on this side of the room, let's go to Bradley Thomas here in the front.

Bradley Thomas - KeyBanc Capital Markets Inc - Analyst

Thank you. Bradley Thomas with KeyBank. I'll ask hopefully an easy one. There's been a lot in the news around tariffs over the last month here. Can you just help us process, you know, what you're assuming in terms of the current tariff rates?

If the current rates from the way the Supreme Court has ruled and the way the administration has reacted, if those were to hold true, what would the impact be on your margins? Thanks.

Michael Fiddelke - Target Corp - Chief Executive Officer

A lot of variables moving on the tariff front, obviously. I think that, you know, that we step into 2026 with those variables moving. We stepped into 2025 with some of those variables certainly moving.

While I don't think any of us have a crystal ball for exactly how the path forward on tariffs is going to play out as we move through the year, I take a ton of confidence in how I saw our team lead through that volatility in 2025. It was with a focus on the guests with every decision that we made.

To the point Jim made earlier, as we kind of rebase lined the business post Q1, there were still a lot of variables in the air, one of them being tariffs, and the team did a great job leading through that.

My crystal ball is not perfect on where tariffs go, but I'm confident that we've got the right deep, talented team to position us with the right flexibility to react however we need to.

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

Yep. I would just emphasize that point. Our focus is going to be providing value to our guests. Even if rates move up and down, you know, we work, going to be laser-focused on making sure we get the right value to our guests at all times.

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Let's go to Jacob from Melius right here.

Unidentified Participant

Jacob from Melius Research. Two questions. First, last quarter you talked about, I think it was the Chicago market, where you were testing some new operating standards, shifting some of the digital mix between stores to make it more efficient. Wondering if you could give some more color on that and the rollout across the rest of the system.

Separately, I wanted to key in on a comment you made about change management. It does seem like there has been a lot of change from a not just from a merchandising perspective, but from a people perspective, and that's from your seat all the way down to the hourly level employee.

Just how do you think about that? What I guess what stage or what inning are we in in that, and where do we see that going forward?

Michael Fiddelke - *Target Corp - Chief Executive Officer*

Yeah. The, maybe I'll start on the team side, and then let's come back to your first, your first question. I mean, the, it all starts and ends with the incredible work of the team.

We're focused on making sure that, A, we're an employer who's attracting an incredible team, and that's true from every role in this building to every single one of our 2,000 stores and supply chain facilities and sourcing offices around the world.

It's our job to make sure we're creating the right culture and making the right investments to attract a great team. It's positioning that team effectively against the strategy in front of us. On that front, I feel really good about how we're positioned heading into 2026. What was your first question?

Unidentified Participant

Chicago market.

Michael Fiddelke - *Target Corp - Chief Executive Officer*

Oh, Chicago. It goes back what we did in Chicago, we talked about some of this in the last quarter, just a brief refresher. You heard me talk about some of the challenges that came with explosive digital growth.

You know, that growth, don't get me wrong, I'm not wishing away for a second a \$20 billion profitable digital business and the work our teams did to support that growth as it exploded through the pandemic and has continued to grow from there.

Excellent work. Couldn't have done it without the store teams at the center of it for sure. That made life way more complicated in a store for some stores. We were adding capacity so quickly.

I mean, we were putting pack stations in stores everywhere where you could, you know, find an empty broom closet practically because the business was growing so fast. Now we're able to step back with the benefit of a little bit of time and some learning and optimize that.

What we saw in Chicago is that by having some stores really lean in to specialize for fulfillment in the market, they've got big back rooms and the capacity to specialize and equipping the team to be trained and support that volume well, and then having some other stores sit it out.

Like, we don't need every store shipping boxes for some stores. The size of the in-store business should be the one and only thing we ask that team to focus on versus shipping boxes. We're encouraged by what we've seen in Chicago.

You'll see us, we already have, expand that to more and more markets. That's one example, not the only example, but one example of how when we can simplify for the store teams, that should translate directly into a better experience. In that example, we're seeing benefits on the fulfillment side and we're seeing benefits across stores as their role becomes more clear.

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

What I love about that is it's faster and more efficient. As we expand the Chicago test, that's one of the big unlocks for us to do next day fulfillment. You drive scale within a couple of core nodes in the stores and allows us to fulfill that next day and cheaper. It's pretty exciting when you see that growth happening.

Michael Fiddelke - Target Corp - Chief Executive Officer

One of the, you know, the places to fund the investment we're talking about this year, getting more and more efficient in brown box fulfillment is one of the things helping us there for sure.

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Let's go to, David at Mizuho.

David Bellinger - Mizuho Securities USA LLC - Director

Hey, everyone, David Bellinger at Mizuho. Thanks for all the detail and the candor today. My question's on agentic commerce and understanding this is exceptionally early.

How do we think about the incrementality of those sales? If more sales do shift out of the store to digital, what does that mean for the P&L? Just any early read on how the economics of these partnerships will work out for Target?

Michael Fiddelke - Target Corp - Chief Executive Officer

My hunch is we're a ways away from understanding every economic put and take. The thing that we're laser focused on is making sure we're where the consumer is. That means being at the forefront of innovation when it comes to how the consumer purchase funnel is going to transform.

AI is certainly going to play a role there. In some ways, I kind of like our advantages cause we've got two that I think really matter. One is we've got great scale. We're at the forefront of innovation with some of the big tech partners in this space.

That allows us to make sure that just like we did with social as it exploded, we're staying front and center for guests as the way they shop evolves in the months and years to come in ways that probably none of us can fully predict.

We've got the scale to be relevant there, and we're already innovating with those partners. You know, being one of the first retailers to have kind of an immersive shoppable experience in some of the GenAI platforms, I think is a good example of us leaning in in the right way there.

The second advantage that I think we have is we're curators by nature, and some of what AI does is try to bring you the best thing fastest, and we run the whole business that way because of the work we do to curate the very best in both in-store and online.

I actually think that in many ways, we're kind of wired to think about the same way AI is going to think when it comes to curating what matters most.

Like, that's our mission every day is to make sure in our 2,000 stores, we've curated the thing that you're going to most resonate with at the right price. I have a lot of confidence we'll be able to continue to do that online too.

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All right. Let's go to Oliver Chen next here, TD Cowen.

Oliver Chen - *Cowen and Company LLC - Analyst*

Hey, thanks a lot. Oliver Chen, TD Cowen. On the AI frontier, what are your thoughts about what will be most material in the near term to your financials and algorithm? As you think about AI organizationally, customer facing, supply chain.

How's your approach in terms of centralization relative to the units? Also, Jim, on the comp store sales, what comp do you need to leverage fixed cost?

As we look at the year ahead, apparel has been quite negative and so has home, which categories could drive comp upside, and how do you get to more consistent comps that aren't losing share in the 3%, 5% range consistently?

Michael Fiddelke - *Target Corp - Chief Executive Officer*

Maybe I'll start on the technology front, and appreciate the question, Oliver, because technology has long played an important role at Target, it's my third priority. It's a place where we need to lean in even more going forward, and we will.

We're putting real investment behind it. It shows up across the business, as you might expect. I mean, when we're using AI to its fullest, it's personalizing a guest experience so that if you open the Target app, the offers you get are as relevant as they can be because AI is helping make that happen.

We also talked a little bit today about the role technology plays to create efficiency within the team. You know, for our store team members, you heard us say, the humanity of the store experience is part of our secret sauce.

Every minute we can save a store team member unloading a truck or even in the steps they take across the store is a minute that they can reinvest serving our guests. You'll see us use technology in support of the humans, and the two humans we're focused on are our guests and our team members.

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

In terms of the comps and, you know, what kind of sales we need to deliver, clearly the last few years we've faced deleverage and we've done the right thing to make sure we're stepping over our investments where we need to and trying to drive productivity.

A lot of that goes down to the level of productivity we can continue to generate will also be sort of an offset to our ability to leverage growth. Obviously getting to low to mid-single digit rates over time on overall sales drives leverage. And I think we're going to start seeing that, the beginnings of that this year.

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I think we have time for about one more question before we wrap up. That can go to Zihan right here at Bernstein.

Zhihan Ma - *Sanford C Bernstein & Co LLC - Analyst*

Thank you. Zihan from Bernstein. Thank you for fitting me in. I think, Jim, last year this time you were talking about e-commerce being profitable. Can you just give us an update on across the different fulfillment modes?

What's the profitability looking like today? Is it going to be margin dilutive still compared to the brick-and-mortar growth from here? What levers can you pull to improve profitability? Thank you.

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

Happy to take that question. Like I said in my remarks today, first, nothing has changed from what I said last year. What's important for us to think about is the digital ecosystem.

We feel very strongly because of the productivity we're driving within our e-commerce, different channels of fulfillment, our ability to scale Roundel and Target Plus, our marketplace, that whole ecosystem works really well for us.

I guess, like, the way I look at it is growth in digital is great for our business. I'm not concerned that there's any type of dilution. Scale, it drives scale, and the ecosystem is profitable. We feel great about the growth in digital.

Michael Fiddelke - *Target Corp - Chief Executive Officer*

The thing we see over and over again that makes the point Jim made just so true is that the more guests lean into some of our digital services, the more they spend in total, and perhaps unintuitively, often the more they spend in store. I think you've heard us tell this over time. It's still true today.

If you're a guest that hasn't used Drive Up and you use Drive Up for the first time, like we would have thought before we launched Drive Up, well, that probably costs us a store sale. Still the right thing to do, meet the guests where they are. We're going to cannibalize some of the store sales.

Nope. When you use Drive Up, you spend 20%, 30% more at Target in total. Your store spending reliably actually goes up and not down.

I think that's because of the role stores play for us with our guests, is if we can save you time and some of that quick replenishment when you do have that, you know, screaming toddler in the back seat, like, it's almost like our guests reinvest that time in the store experience because the sense of discovery and finding what's new is so important to them.

You know, that's maybe actually a good place to wrap because, you know, I couldn't be more confident sitting here today that we've got a crystal clear view of how we win. The shorthand is incredible product and incredible experience. Those are easy things to say. They're hard to do at the bar that I have for us, but the work's happening.

We're not going to get it all right, and it's not going to come all at once, but we couldn't be more confident that we're on the right path and couldn't be more pleased to have all of you on that journey with us. Thank you so much for the time today. Thank you.

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