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EDITED TRANSCRIPT

TGT.N - Q3 2026 Target Corp Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Justin Madsen *Target Corp - Vice President of Investor Relations*

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Michael Lasser *UBS AG - Analyst*

Rupesh Parikh *Oppenheimer & Co Inc - Analyst*

John Heinbockel *Guggenheim. - Analyst*

Corey Tarlowe *Jefferies LLC - Analyst*

Spencer Hanus *Wolfe Research LLC - Analyst*

Simeon Gutman *Morgan Stanley & Co Ltd - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation Third Quarter earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded Wednesday, November 18, 2026.

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

Justin Madsen - *Target Corp - Vice President of Investor Relations*

Good morning, everyone, and thank you for joining us on our third quarter 2026 earnings conference call. On the line with me today are Michael Fiddelke, Chief Executive Officer; Cara Sylvester, Chief Merchandising Officer; Lisa Roath, Chief Operating Officer; and Jim Lee, Chief Financial Officer. In a few moments, Michael, Cara, Lisa and Jim will provide their insights on our third quarter performance and outlook for the rest of the year.

Following their remarks, we will open the phone lines for a question-and-answer session. This morning, we are joined on this conference call by investors and others who will be listening to our comments via webcast. Following the call, Jim, my team and I will be available to answer your follow-up questions.

As a reminder, any forward-looking statements that we may make this morning are subject to risks and uncertainties that could cause our actual results to vary materially, including those risks and uncertainties contained in this morning's press release and in our reports filed with the SEC.

Also in today's earnings materials, we refer to non-GAAP financial measures, including adjusted earnings per share, adjusted operating income, and adjusted SG&A expenses. Our cautionary statement regarding forward-looking statements and reconciliations of all non-GAAP numbers to the most directly comparable GAAP numbers are included in this morning's press release which is posted on our investor relations website.

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With that, I'll turn the call over to Michael to get us started this morning. Michael?

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

Thanks, Justin, and thank you to everyone joining us today. It's hard to believe we're already heading into the holiday season, especially when I think about everything our team has accomplished to get us here. I've always loved this time of year. There's something special about the combination of familiar traditions and new discoveries.

The things we look forward to every year, alongside the unexpected moments that make the season memorable. And in many ways, that captures what we're working to create at Target. We want to be a place our guests count on for what they need, but also a place that inspires them with things they didn't know they were looking for, where incredible value, newness, and discovery come together with a joyful experience to make shopping something to look forward to.

That's the ambition behind our strategy, creating the most delightful shopping experience in retail. And as we enter the all-important holiday season, it's a good moment to reflect on our progress and the meaningful work still ahead.

Earlier this year, we outlined a refresh strategy to return Target to sustainable growth, grounded in serving busy families with a differentiated combination of style, design, and value. And we identified four priorities to bring that strategy to life, leading with merchandising authority, elevating the guest experience, accelerating technology, and strengthening our team and communities.

Three quarters into the year, I'm encouraged by the progress we're making and the response from our guests. We have lots of important work still ahead, but I'm increasingly confident in the direction we're headed. Our third quarter results continued the momentum we've been building this year.

Comparable sales grew 5.6%, led by comparable traffic growth of 5%, with both accelerating on a two-year basis compared with the first half of the year. Notably, we grew sales in all three months of the quarter with our strongest performance during the back-to-school and college seasons.

While sales did slow down a bit in October, we've since seen sales accelerate again in November, and are currently in line with our expectations. And even as we continued to invest meaningfully in our business, adjusted earnings per share expanded significantly from a year ago. Jim will unpack our financial results in more detail shortly.

Importantly, this momentum isn't coming from any one category or initiative. It's the cumulative impact of changes across our business, as evidenced by our traffic growth across stores, digital, and multiple categories. Simply put, we're giving our guests more reasons to shop us more often.

We're deliberately investing in categories and in an elevated experience to support busy families where Target already has an outsized share of wallet. But our opportunity extends well beyond any individual category. Together, these investments are making Target a destination for discovery and further defining our unique lane in retail.

Consider the work our team has already accomplished this year across our assortment in the shopping experience. From food and beverage, where we're bringing guests more newness and differentiation. And Fun 101, where we're moving away from commoditized products, and leaning into culturally relevant assortments that are distinctly targeted.

And Beauty, where we're building from a strong foundation by furthering the strength of our core business while also introducing a new beauty destination, Target Beauty Studio, in more than 600 locations. Then there's the changes we've made in areas like baby, health and wellness, and more with additional changes yet to come.

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Cara will share more in a minute about how these investments are reinforcing what makes Target special and driving traffic and interest beyond a single area of the store, and every bit as important as our assortment changes is our work to elevate our experience.

As we committed to earlier this year, we're investing more than $1 billion incremental dollars to last year in areas like store hours, training and technology to help our teams deliver a better guest experience. We also outlined our plans to invest around $5 billion in CapEx, which has supported the opening of 32 new stores and the complete remodel of more than 130 existing stores as well as investments in our supply chain and tech capabilities.

Together, these improvements give guests greater confidence that when they choose us, we'll deliver. And underpinning all of this is our unwavering commitment to value. We know affordability remains top of mind for busy families, which is why it is top of mind for us as well.

To support them, we've lowered prices on thousands of items over the last year alone and we're committed to continually investing in price to ensure guests can count on Target for exceptional value every time they shop with us. Now, while we're encouraged by this progress, I want to be equally clear about where we're not yet satisfied.

We entered this year with a strategy that called for significant change, more than we've made in any single year for more than a decade. We also knew we wouldn't get it all done out of the gate. That's okay. We're focused on not just driving short-term results, but embracing constant evolution, fast failure, and even faster learnings to accelerate what's working and change course when needed.

Top of mind are our home and apparel categories, where we still have meaningful work to do. While we've seen some progress in both categories, I want to be clear. We are not satisfied with how these categories are performing and we remain committed to the important role they play in our strategy.

These are areas that have made us famous over time and our goal is to deliver that same level of style and value differentiation going forward. We understand where we need to improve, we're aligned on the actions required, and we're committed to doing the real work to get there. Cara will share more shortly.

And while investments in merchandising and experience get a lot of airtime, technology underpins our entire strategy. For us, investments in tech will always be in service of our unique role in retail. It's about helping our teams do their best work and making shopping easier and more inspiring for our guests.

We're modernizing the systems that support the foundation of our business while accelerating innovation too, from tools that improve product availability and team efficiency to guest-facing tools like Ask Target, our AI-driven shopping assistant. Ask Target is still in beta, but we're encouraged by early results and excited about the new capabilities we'll introduce in the months ahead.

Before I turn it over to Cara, I want to thank our team members across the company. This has been a year of tremendous change, and now we're entering the busiest season in retail. Your commitment to bringing our strategy to life, prioritizing this very important work, and serving millions of guests every day has been remarkable.

I'm truly grateful for everything you've accomplished and for all you'll do to deliver for our guests this holiday season and beyond.

With that, I'll turn the call over to Cara.

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

Thanks, Michael. At our best, Target has the ability to turn an ordinary shopping trip into something special. Guests come to us for what they need. But they also expect to discover something new, whether that's an emerging beauty brand, a great design collaboration, or a cultural moment they can't find anywhere else.

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That's a big part of what makes Target different, and it's why we're making deliberate choices about our assortment, where we invest, and how we bring it all to life. In Q3, we saw more evidence that our strategy is working in the areas where we've made meaningful changes and were equally clear about where our performance isn't yet where it needs to be.

Let's start with where we're seeing strong momentum, beginning with food. Last quarter, I highlighted our largest food transformation in more than a decade, including a reset to change the presentation of nearly half of our center store grocery assortment, while introducing even more new products.

Guest research tells us that busy families want inspiration and discovery across all categories, including everyday staples. And that's what we're delivering. And what's encouraging is that we're continuing to see guests respond to those changes. Building on our eight consecutive years of annual sales growth.

Food and beverage sales grew nearly 7% in Q3, with particular strength in snacks, candy, and beverages, where we made some of our biggest changes. Since the reset, those categories have seen net sales growth of nearly 10%. We also introduced more than 2000 new food items this quarter, up nearly 40% from last year.

Bringing emerging brands, exciting flavors, and better-for-you options guests might not find at the grocer down the street. And with [40 million] more transactions containing food items so far this year compared with the same period last year, we're seeing encouraging evidence that food is becoming an even more important part of the Target shopping trip.

We're seeing similar momentum in beauty. Our total beauty business grew more than 9% in Q3 with high single-digit to low double-digit sales growth across all of our core beauty categories and delivering meaningful market share gains. And we're excited to build on that strength with the recent introduction of Target Beauty Studio in more than 600 stores.

We've brought together an incredible assortment of emerging and prestige brands, a beautiful shopping environment, and a more personalized service experience, all designed to make discovery easier and give guests even more reasons to choose Target for beauty. And we're already seeing excitement around Beauty Studio with strong engagement across our social channels as guests discover the new brands and experience.

It's still early and we have more to learn, but we're excited about what Target Beauty Studio can unlock as we continue strengthening Target's position as a leading beauty destination. And back to school and back to college were great examples of how we're bringing together style, design, and value in a way that's distinctly Target.

Together, these seasons delivered mid-single-digit sales growth and meaningful market share gains. In Back to School, we paired on-trend products with exceptional value, keeping 95% of our core school supplies assortment priced at or below last year's levels, while introducing exciting newness through brands like Cat & Jack, Owalla, and our exclusive Love Shack Fancy collaboration.

The result? We drove sales, traffic, and market share gains. With notable performance in backpack sales, growing high single-digits, and hydration categories, growing nearly 40% to last year. And in Back to College, we help students make their spaces feel like home with stylish bedding, innovative storage, and trend-forward tech at compelling prices.

And this led to meaningful improvement in sales trends across home categories like kitchen, decorative home and organization. These results reinforce something fundamental about Target. Premium style and design don't have to come at premium prices. And when we lean in to support busy families during important life moments with this balance in mind, guests choose Target.

Now, while we're encouraged by these successes, we're equally focused on the areas where our performance isn't yet where it needs to be. In home, we've seen improvement, particularly in this year's back to school and back to college assortments.

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We're also seeing encouraging progress in the categories where we've made some of our most meaningful changes, including decorative accessories, kids' home, and our recent transition in domestics, which includes items like bedding, towels, throw blankets, and more.

In bedding, for example, we brought guests more relevant products, improved presentation, and sharpened our value proposition. In fact, more than 75% of the assortment is brand new, with items priced at an average of 15% lower than the items they replaced.And in the first two weeks following the transition, we delivered double-digit comparable sales growth.

It's a promising start, but two weeks don't make a turnaround. We've been clear that rebuilding our authority in home is a multiyear effort. But we're making deliberate changes category by category, focused on building more consistent momentum one quarter at a time. In apparel, our challenges are more significant, so I want to spend a minute on where we're seeing progress and where we've fallen short.

While overall apparel performance remains below our expectations, we're seeing strength across several businesses, including men's, kids, women's swim, and young contemporary, all of which are growing versus last year. Our underperformance really comes down to two categories, women's fashion and shoes, both of which have lagged broader trends.

I want to be direct about why. In women's fashion, we made the assortment and value proposition too complex. We lost focus on some of the foundational pieces our guests count on, and we weren't consistent enough on fit, fabric, and quality. That's on us, and we're making meaningful changes.

We've made leadership changes in these categories. We're getting back to the fundamentals, working more closely with vendors and seeking more direct guest feedback. We're reducing style counts by approximately 20% to sharpen our point of view and simplify the assortment.

And we're lowering prices on hundreds of items to strengthen our value proposition. These are fundamental changes to how we build and run the business, not quick fixes. We expect to see some early signs of progress this spring with the goal to drive broader improvements over subsequent quarters.

I know we're capable of much better results. And even more importantly, our guests deserve better from us, and that is what we're committed to. Stepping back, our third quarter performance reinforced what we're seeing from consumers. Busy families are watching their budgets and being thoughtful about where they spend.

And we see them responding when we give them something they love at a price that feels right. And that's exactly how we've approached this holiday season, bringing together so many of the investments and changes we've made across the business this year. We've put the gift giver at the center of our plans because we know busy families want to make the season special without stretching their budgets.

We're introducing more than 8,000 new gifts across our assortment compared to last year, with more than half exclusive to Target. Most are priced at $20 or less, including thousands at $5 and under. And these aren't just opening price point basics. They're products with the style, quality, and personality guests expect from us.

Think $45 cashmere sweaters, family pajamas starting at $10, and beautiful holiday decor and food gifting items starting at just $5. In food and beverage, nearly 80% of our own brand items for the holidays are priced at $5 or less, making it easier to host, celebrate, and enjoy the traditions that make this season special.

We're also offering our Thanksgiving meal deal again this year, feeding a family of six for just $30 with all the holiday staples you'd want and need for this special season. In beauty, we're offering nearly 450 trend-forward finds priced $20 or under, including advent calendars that make discovering new favorites fun and affordable.

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And in toys, we'll have more than 2000 new items, including over 1,000 toys under $10. And we're making it easier for guests to discover and shop all of it. In early December, we'll transform a significant part of our seasonal space into our Christmas morning magic destination, bringing in an entirely new assortment of toys, stocking stuffers, and last-minute gifts, including $3, $5, and $10 finds, and $20 wow gifts.

And together with daily deals, new AI-enabled gifting tools, and convenient fulfillment options, we're helping busy families make every dollar, and every shopping trip count. Because value isn't simply about the lowest price. It's about finding something that feels special, at a price that feels right, through an experience that feels distinctly Target.

As I look across our business, I'm encouraged by our progress, but I'm also clear-eyed about the work ahead. We've accomplished a tremendous amount this year, and where we're not delivering the results we expect, we're taking action. We've asked a lot from our team this year, and so I want to pause and simply say thank you.

Team, you've completed a lot of hard work to bring our strategy to life, and I know you're ready to make this a memorable and joyful holiday season for our guests and each other. I have confidence in the direction we're heading because of you, team.

With that, I'll turn the call over to Lisa.

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

Thanks, Cara. As I've shared before, there's real power in consistency and we've all experienced it. Think about your favorite chain of coffee shops or hotels. No matter which location you choose to visit, you know what to expect before you go. And while quality and value are paramount, there's something equally important about knowing you'll get the same great product and experience every time.

That's why I remain focused on the consistency of our operations. As we continue bringing our strategy to life, we're focused on delivering the same easy, inspiring, and reliable experience every time a guest chooses to shop with us. And while we're not yet where we want to be, I'm excited by our progress, and how that's being noticed by our guests, as evidenced by healthy store sales and traffic growth, improving overall satisfaction and Net Promoter Scores, and improved product reliability. Guest ratings of their overall store purchase satisfaction have improved throughout the year and did so meaningfully again this quarter, with gains across multiple drivers of the guest experience.

From interactions with our team and ability to find the products they're looking for, to wait times at checkout and more, our investments in store labor and training are working and translating to real results. Notably, we're seeing even stronger improvements on evenings and weekends when our stores are naturally busiest.

And we also saw faster recovery and improved experience metrics coming out of peak moments like back to school. These were areas where we identified some of our greatest opportunities to improve and recent results give us growing confidence in where we have been focusing our investments and where to continue to do so.

But as always, we won't confuse progress with potential and keep working to drive greater consistency across all locations, channels and hours of operation. Of course, one of the critical parts of our work to elevate our shopping experience is continuing to improve product availability.

This quarter, on-shelf availability improved by more than a full percentage point compared with last year, including meaningful gains on our most frequently purchased items. That matters because there's nothing more fundamental to earning a busy family's trust than having the products they came to buy.

There's a lot that goes into improving on-shelf availability, from upstream technologies to processes in the back rooms of our stores. And there's still a lot of opportunity ahead of us, which is why we're taking a comprehensive look at how inventory moves through our entire system, from purchasing and allocation. To replenishment and execution on the sales floor.

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And increasingly, we're using AI and advanced data science to make those decisions smarter and faster. We've expanded our modern science-led purchasing and replenishment capabilities from approximately 40% of our assortment last year to more than 90% today. We're also using more sophisticated allocation technology to better position inventory to meet demand, reducing manual work while improving our ability to capture sales.

In the same way you heard Michael and Cara describe individual merchandising category investments being in service of something collectively bigger, these tech investments aren't made in isolation either. They're part of a broader effort to simplify how we operate, connect decisions across our enterprise, and give our teams more time to serve guests.

That same end-to-end thinking has guided an extraordinary amount of transformation across our stores. Less than a year ago, these changes existed only as blueprints. Ideas on a page. Today, these physical transformations in areas that we know matter most to busy families have become a reality, and represent a big step towards our ambition of creating the most delightful experience in retail.

More specifically, over the last nine months, we have expanded our health and wellness assortment and floor pad, created a new baby destination offering a more robust and bespoke assortment and experience than ever before; reset half of our center store grocery assortment while also delivering greater newness, freshness, and shopability across the entirety of food; introduced thousands of new beauty items and launched Target Beauty Studio in more than 600 stores; updated 75% of our decorative accessories assortment and created hundreds of threshold shop-in-shops, completed our biggest transition in Hardline's history, creating the current Fun 101 experience that is redefining fandom, play, and cultural moments, and most recently, overhauled our bedding and kids' home assortments.

Through these activations, as well as our focus on driving greater discovery across our broader merchandising offerings, we've introduced tens of thousands of new items into our assortment so far this year, leading to traffic and basket gains, and more cross shopping across categories through an elevated experience designed to support discovery and inspiration.

Outside of these individual category and experience investments, we've also been investing in the long-term infrastructure of our store portfolio. More specifically, this year we've opened 32 new stores, our largest number since 2009, and completed more than 130 full store remodels. And the new stores are performing very well.

Altogether this year, we've entered 11 new markets, bringing the best of Target within reach of nearly 2 million new guests. And in addition to bringing Target closer to more families, we've created thousands of new jobs, strengthened our fulfillment network, and supported and strengthened even more local communities.

Given the results we've been seeing, we plan to continue our momentum with new store and remodel investments in 2027. Jim will have a bit more color to share in a minute. As you heard from both Michael and Cara, we all love the magic that the holidays bring, and even more so, the magic we can bring during this joyful time.

I'm confident we're better positioned than ever to deliver for busy families this holiday season, regardless of when, where or how they're shopping with us. We've invested behind our staffing, training, and technology, and our supply chain is ready for peak demand.

We've made fulfillment even faster and easier, with two-thirds of our digital volume fulfilled through our same-day services. And with same-day delivery continuing to grow at double-digit rates, our guests know they can count on us for what they want when they need it.

We've also made next-day delivery available to nearly three-quarters of the US population, with next day delivery options being shown at checkout twice as often as one year ago. With our major transformations and new store openings behind us for this year, our teams are now focused on delivering a great holiday experience throughout the season.

And of course, while the holidays are the most wonderful time of the year, they're also among the most demanding for our operations teams. So I want to pause and recognize our team members across stores, supply chain, service centers and headquarters.

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You've navigated extraordinary change this year with resilience, dedication and an unwavering commitment to our guests and each other. And it's because of you that I have such strong conviction in what lies ahead. Our work is far from done. But through that work, we're building a stronger target, one that's even better equipped to deliver the consistently elevated experience our guests deserve this holiday season and for years to come.

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

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

Thanks, Lisa. As you heard from Michael, Cara, and Lisa, our third quarter results provide further evidence that our strategy is working as designed. We're encouraged by the continued acceleration in sales and traffic and, importantly, by the strong underlying profit growth we're delivering. Our business is continuing to deliver healthy top-line growth and even faster underlying growth to our bottom line.

While we recognize there's more work ahead, we're pleased with the progress we're making and increasingly confident in our ability to deliver sustainable, profitable growth overtime. As I unpack our results this morning, I'll refer to financial metrics excluding the impact of tariff refunds to offer a cleaner perspective on our underlying financial performance.

In Q3, we received approximately $300 million in tariff refunds, equating to about $0.50 of EPS. Year to date, this is worth around $2.14 of EPS. When excluding tariff refunds, our year-to-date net sales increased 6%, gross margin dollars grew 10%, adjusted operating income increased 23%, and adjusted EPS grew 23%. And our third quarter performance was similar to these year-to-date trends.

So now, let's review some of the details within the P&L. For the quarter, net sales were 7.1% higher than last year, which is an acceleration on both a one-year and two-year basis when compared with the front half of the year. Comparable sales grew 5.6% in Q3, driven by a 5% increase in traffic.

Notably, store comparable sales increased 4.6%, meaningfully outpacing the rest of the industry as we continue to invest behind a differentiated and elevated in-store shopping experience. Something that's important today, and we believe will become even more important in an increasingly transactional world.

Additionally, we delivered digital comparable sales growth of 10%. We benefited from broad-based strength across the business, spanning income demographics, geographies, channels and categories, including 27% growth in Fun 101, 9% growth in beauty and nearly 7% growth in food and beverage.

Within Fun 101, I want to highlight the broad-based strength we're seeing. As we work to create a pop culture destination, we're focused on identifying trends early, and making strategic bets, as we've done with trading cards. While the trading card category is booming across the industry, we continue to gain market share. That success isn't simply a matter of timing.

It reflects deliberate investments in a differentiated assortment and an elevated in-store experience. Importantly, our strength in Fun 101 extends well beyond collectibles. Year-to-date sales in Fun 101 have grown into high teens, of which about 40% of this growth is from trading cards.

However, even when excluding the benefit from trading cards, Fun 101 is still delivering double-digit growth. Beyond the growth we're seeing in merchandise sales, we continue to see strong contributions from our higher-margin non-merchandise businesses, including Roundel, Target Plus and Target Circle 360 memberships.

Taken together, these results reinforce our confidence that our differentiated assortment, elevated experience and investments in value are resonating with guests. Our third quarter gross margin rate of 30.5% was approximately 230 basis points higher than last year, including 110 basis points of benefit from tariff refunds.

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Excluding these refunds, gross margin expanded approximately 120 basis points to last year, reflecting the comparison against elevated markdowns and tariff-related costs in the prior year. As well as continued growth in non-merchandise sales and productivity improvements within our supply chain.

These benefits were partially offset by continued investments in value, elevated freight and fuel related costs and modest pressure from category mix. Third quarter adjusted SG&A expenses increased approximately 10% versus last year.

As in the first half of the year, the increase was driven primarily by intentional investments in our business, including additional hours and training for our store teams, as well as spending to support new stores and remodels.

Additionally, based on the strong core business performance we've seen so far this year, a meaningful portion of this quarter's increase in SG&A reflected higher incentive compensation as we compared over a reduction in incentive comp in the third quarter of last year. Excluding the impact of incentive compensation, adjusted SG&A as a percentage of revenue decreased versus last year.

Altogether, the intentional investments we're making consistently throughout the year are driving real results, and we're encouraged by the improvements we're seeing in guest satisfaction, product availability and the overall shopping experience. And importantly, the strength of our sales and gross margin performance has more than offset this expense growth.

As a result, excluding tariff refunds, adjusted operating income increased 24% in the quarter, and our adjusted operating margin rate expanded by approximately 70 basis points over last year. On the bottom line, we delivered GAAP and adjusted EPS of $2.65 compared with adjusted EPS of $1.78 last year. Excluding the impact from tariff refunds, adjusted EPS increased approximately 21%.

Now turning to capital deployment and our balance sheet. Through the first nine months of the year, we've invested approximately $3.8 billion in capital expenditures, up nearly $1 billion from last year, behind the strategic priorities we laid out at our financial community meeting in March.

These investments are focused on elevating the guest experience, expanding and modernizing our store fleet and building capabilities in technology and supply chain to support continued growth. Given the strong returns we're seeing on these investments, we expect to invest between $5 billion and $6 billion in CapEx next year compared with our expectation of about $5 billion in 2026.

Beyond CapEx, during the third quarter, we paid $527 million in dividends and repurchased approximately $250 million of our shares. Looking ahead, we anticipate a similar level of repurchases in the fourth quarter, consistent with our commitment to maintain our middle age credit ratings.

We ended the quarter with inventory of $16.1 billion, up approximately 8% from last year. The increase is in support of anticipated sales growth over the holiday season, investments to continue to improve on-shelf availability in our fastest-turning categories and to continue delivering newness across our assortment.

Now turning to our outlook. Given our continued strong performance through the third quarter, we're raising our full-year net sales growth outlook to a range around 6%, one percentage point higher than our prior guidance. We now expect our full year operating margin rate will be in a range around 6.2%, including approximately 110 basis points of benefit from tariff refunds.

Excluding those refunds, we expect our operating margin rate to be approximately 50 basis points higher than last year's adjusted rate. We're raising our full year GAAP and adjusted EPS guidance to a range of $10.65 to $11.40. This includes approximately $2.14 of tariff refund benefits recognized year-to-date.

So to close, we're encouraged by our progress and particularly by what it tells us about the potential of our business over time. We've made meaningful incremental investments this year to strengthen our competitive position. Those investments are fueling faster top-line growth, driving market share gains across multiple categories, and importantly, we're delivering strong profit expansion at the same time.

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That ability to reward our shareholders, invest back into the business, and offer tremendous value to our guests reinforces our conviction in the strategy we're pursuing. And making it all happen is our incredible team who translates aspirations and plans on a page to an assortment and experience our guests tell us they love. Thank you to the entire Target team for all you've done and continue to do to bring our strategy to life.

With that, I'll turn the call back over to Michael.

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

Thanks, Jim. As we wrap up this morning, I want to highlight some of the key themes you've heard from us today. Throughout this call, we've shared the meaningful progress we're making against our strategy. We're seeing guests choose Target more often, responding to the newness, differentiation, and value we're bringing to our assortment.

We're making important improvements to the shopping experience, and those investments are translating into stronger financial performance. And our team is doing it all faster and more consistently as we accelerate our use of technology across our business. There's a lot to be encouraged by, but as I've said consistently, there's a lot more work to do.

We're committed to building on this momentum, learning along the way and delivering the consistently elevated experience our guests deserve. As we head into the holidays, I'm excited about the opportunity in front of us. Our teams are ready to serve busy families in support of making this holiday season easy, affordable, and inspiring.

And while we of course love helping families celebrate the season through great gifts, incredible value, and moments of unexpected joy, one of the things I love most about the holidays is the opportunity to give back to the communities we're so proud to be part of. Giving back has always been an important part of who we are at Target. And this holiday season, our team is bringing that commitment to life in new ways.

Through our annual great gift together, team members across all of our stores, supply chain facilities and headquarters will partner with local non profits to fulfill holiday wish lists for more than 4,500 families across the country.

On Giving Tuesday, we'll recognize 100 team members who go above and beyond in serving their communities, giving them the opportunity to direct a combined $1 million in grants to nonprofits doing important work. And by combining our love of great design and giving back, we're celebrating 30 years of partnership with St. Jude's Children's Research Hospital with a special edition Toy Bear from our Gigglescape-owned brand.

Available for just $15 with $3 from every bear sold going to support St. Jude's incredible mission. It's a simple way for our guests to spread a little extra joy this holiday season while making a meaningful difference for children and families all around the country. These are just a few ways we're showing up this holiday season, but they represent something much bigger.

At our best, Target does more than help families find what they need. We create moments of joy, bring people together, and make a lasting difference in the communities we serve. And our team is front and center on making that happen. So to our more than 400,000 team members, thank you.

Thank you for embracing change, for taking care of our guests and each other, and for everything you're doing to make this holiday season special. I'm proud of the progress we've made together. I'm confident in the direction we're headed and excited about what's ahead for Target, this holiday season, in 2027, and for years to come.

With that, let's open the call for questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Lasser, UBS.

Michael Lasser - *UBS AG - Analyst*

Good morning. Thank you so much for taking my question. Core to the investment conversation on Target is the ability to sustain the momentum into 2027, especially after the retailer is going to have to anniversary some unique factors this year like the outsized contribution from trading cards.

So can you provide some more context on the building blocks that you are thinking about driving the same-store sales growth into 2027? Perhaps you can put it in the context of what you've seen in terms of the traffic from new customers versus recaptured customers, and cross-category shopping to put at rest some of the concerns that folks are just coming in buying single items like trading and not shopping in other categories.

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

Thanks for the question, Michael. It's a good one because it actually puts the time horizon where ours is focused too. We've built a strategy to drive long-term sustainable growth. And as you've heard us say time and time again, the goal isn't a quarter of growth or even three quarters of growth, the goal is sustained profitable growth overtime.

And on that front, we're really encouraged by what we see in the business right now. You mentioned traffic, and I'll start there because I think we've seen over time building traffic, building preference for Target is a source of sustainable growth. And if you decompose the traffic growth we're seeing in the business, we're seeing traffic increase in five of our six key categories.

And so the broad-based nature of that strength gives us a ton of confidence. We know in a category like food and beverage where we saw nearly 7% growth in the quarter. When we build preference in food, it turns into habits that's sticky over time. And so we feel really good about the broad-based nature of the growth. I think that will be a positive thing in not only the holiday season but in the years to come.

Cara, I might ask you to maybe unpack more what we're seeing across the business, but I know something we're really excited about is even though the strong growth in Fun 101 jumped. The page, the broad-based nature of even that growth is really encouraging to us.

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

Absolutely, and I would just punctuate the focus on long-term growth. If I think about what we saw in Q3, some of the things that I'm most proud of are areas that we've driven change in. This is quarter-on-quarter, but even longer than that. We talked about the strength in food, eight consecutive years of sales growth. There, continued acceleration in our categories and beauty as well.

These are categories that we are focused on long-term sustainable growth. We're continuing to see that evidence in Q3. If I unpack the Fun 101 business, I think that's a good one. It's one we've been talking about for quite some time and we've been talking about getting focused on our four key areas of business, really focusing on pivoting our assortments to lean into trend-right culturally relevant assortments and in Q3, we actually completed.

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The biggest in-store experience change, which was able to bring those categories to life. We saw acceleration in Q3 and I would say significant acceleration across all four categories of our business. We've been talking about the strength in play, our toys business. We saw acceleration come to life in that business in Q3.

If I look at the sport business, we introduced fan shops across more than 1,600 stores, allowing us to more trend-right sports destination, we saw acceleration in that business as well. In our gadget business, Michael talked about moving away from more to really lean into the target assortment.

If I use an example of our Heyday brand, we have a beautiful presentation, we're leaning into beautiful colorful $10 headphones, that's one of our top brands now in a destination that is truly distinctly target, moving from negative comps to positive comps in our overall gadget business.

And then I would just punctuate our pop business, which is where trading card sits, goes well beyond trading cards. If we think about how we're leaning into the fandom, I would use pokémon in both Q2 and Q3 to celebrate the 30th anniversary.

We actually leaned into a cross-category destination, having items like food and apparel and beauty come together and actually have an experience in stores that was leaning into busy families. So I think it's important we're really proud of that Fun 101 acceleration.

But wanted to unpack a little bit of what was behind it, the acceleration that we're seeing across all four categories of business, really punctuated by the strategies that we've been consistent on for about the last 18 months here.

Michael Lasser - *UBS AG - Analyst*

That is super helpful. And a quick follow-up is, you already gave us some context for the outlook for CapEx in 2027. There's been a lot of moving pieces with your operating expenses in 2026. So can you help us understand what the direction of SG&A is going to be into 2027?

Will there be some added costs associated with the potential increase in CapEx? Maybe the easiest way to frame it is what comp will Target need in 2027 in order to generate expense leverage? Thank you so much.

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

Sure, Michael. I'm having to start maybe with a little bit of what drives both how we think about CapEx and expense and I might click into CapEx a bit more, but there's a common theme across both. We're going to invest in what drives the business and drives returns.

And I think you've seen that in the capital we put to work this year, we could not be more excited about the returns on the $5 billion going to work in the business and that's new stores, that's remodels, that's technology, that's supply chain and then the same is true with expense.

The hundreds of millions of dollars we've invested in payroll are critical to us making progress on the experience journey that we're on to make that experience consistently elevated and spectacular for our guests every day they choose to shop Target. And so there's a theme of we're going to chase the returns when it comes to both of those.

To maybe just add a little bit more color on CapEx to unpack an area that we haven't come back to in a while on an earnings call, we are really excited about remodels and bringing to life the best of Target in a remodel store. We're also really excited about the strength of the new store pipeline. We've opened 32 new stores this year. That's our most new store openers since, I believe, 2009.

And we're thrilled with the response we see both in the communities where we're creating thousands of jobs with those new stores and in the financial returns of those stores. You hear us come back time and time again to, for us, the store is so important to the overall experience. Guests are drawn to our stores for the joy and delight we can bring in an in-store environment.

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And so when we add a new store to a community that hasn't had one, we see a huge step up in share and incrementality with those guests, and that leads to really strong financial returns on the new stores as well. And so as we look ahead to that $5 billion to $6 billion of CapEx next year, you can expect it to be deployed, re modeling more stores, supporting a strong new store pipeline, and continuing to make investments in things like technology that are powering the strategy going forward.

Jim, anything you'd want to add as you think about kind of both CapEx and SG&A posture overtime?

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

Happy to add. Michael, good to talk to you. So first, as Michael said on CapEx, we're going to continue to build on stronger returns we've seen in our capital expenditures this year in similar categories that Michael just outlined. We feel really good about that posture and the returns we're seeing from our capital.

When I look at SG&A, the way I would unpack it as I talked about in my remarks is we saw the intentional investments that we outlined at the beginning of the year during the financial community meeting flowing through the P&L. And in this particular quarter, we did see a higher impact or meaningful impact on higher incentive comps based on strong underlying performance versus a reduction in incentive comp last year.

As you saw in the overall, to address your 2027 outlook, as I mentioned, year-to-date, our flow-through in our P&L, we look at 6% sales growth, 10% gross margin growth and 23% operating income growth. We've always said that flow-through comes with strong top-line growth. We believe strongly that we have the right momentum and strategy to drive sustainable top-line growth, and that will fuel margin expansion overtime.

Michael Lasser - *UBS AG - Analyst*

Thank you so much, and have a good holiday.

Operator

Rupesh Parikh, Oppenheimer & Co Inc.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Good morning and thanks for taking my question. Also, congrats on a nice quarter. Just given all the interest out there in agentic commerce and search, just curious how you feel Target is positioned today. And on the agentic search part, curious if you're starting to see traffic to your website. So it would be just helpful to unpack Target's efforts on the agentic commerce source. Thank you.

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

Yeah, thanks for the question, Rupesh, I think that's going to be an area where we're still early in the journey and volumes aren't high yet, but it's important for us to be at the forefront of any changes to the consumer purchase funnel. I think we've navigated changes to how consumers find our product well over time. You think about the rise of social.

Over the last half decade is one example, we want to be at the forefront of how consumers find great product. We think curation being such an important part of our strategy. We like our odds of standing tall as consumers are looking for the best product at the best value. That's what we've got a whole strategy built to provide. And so I feel good about us making sure that occurs even as Agentic grows.

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A couple of specific examples you've heard us talk about. Being at the forefront of where, that change is happening so that we can learn from it and help shape it. And that's with our key tech partners, the likes of tools like ChatGPT and Gemini and Copilot and being kind of front and center of how that evolution occurs, I think is critical for the learning that's in front of us.

And then you heard me say in my remarks. We're super excited about our own work to put AI to use in service of a better guest experience. And for us, deploying tech is always going to be in service of the strategy and in service of two sets of humans we care a lot about, and that's our guests and our team.

And so the Ask Target technology that we've put on the app website now allow for our guests to even more easily find our product with an experience that's powered by AI, and we're super encouraged by what we see even in the early beta testing of that.

We're seeing guests move to purchase at about twice the rate through that technology than we see elsewhere and so that's a tangible example of putting AI to use to make the guest experience even better. And so more to come in the quarters and years ahead, I think, because we all learn together, but we're going to be at the forefront, Rupesh.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Great. Thank you. Then my follow-up question, just on a Target Beauty Studios. I know it's early, but just curious how they perform versus your initial expectations. Thank you.

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

Cara, you want to talk about maybe beauty overall and some of the excitement we have for the 600-plus stores that have a beauty studio?

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

Yeah, Q3 was an exciting quarter for beauty, building on our momentum that we've seen now for over a decade, we really think about beauty in total. And so we're really focused on being a leading beauty destination.

We had our fall beauty edit come in, bringing in and introducing new brands and seeing acceleration across all categories of our business, but high single-digits, double-digits in skin care, fragrances, hair care and nail. We introduced Target Beauty Studio. We were really pleased with that introduction. And really that's all about newness and discovery.

And that's what we're seeing out of the gates, generating really good buzz around the launch. We are focused on introducing our guests to all of those new brands. We introduced 90 new brands. We actually are going to continue to focus on adding assortment.

We just introduced fun gift sets for the holiday season, and so we're pleased with what we're seeing out of the gates. It is very early, and so we'll continue to bring you along on that journey.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Great. Thank you.

Operator

John Heinbockel, Guggenheim.

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John Heinbockel - *Guggenheim. - Analyst*

Michael, can you touch on two maybe related topics? So where is the new design organization at this point and maybe its ability to impact apparel? And then secondly, with a new CMO, how do you think about getting even more credit right for all of the changes in store from customers?

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

Great. Well, I'll maybe take them in reverse order and Kara can expand a little bit about the work in front of us in design, and talk a little bit about the importance of that work in the parts of apparel that we have work to do to accelerate. But we could not be more excited to welcome Mark to the team and his chair leading marketing and guest experience.

And so much of what we bring to life in the strategy is making sure guests are finding that incredible product, that elevated experience. We're super excited about how we're telling our holiday story right now in market. But there's a lot of work in front of us to activate kind of entire business end-to-end tell our story.

And as you'll spend time with Mark, you'll hear him describe the importance of leaning in digitally and great creative powering our storytelling, but also the power in our team in stores to tell the Target story. And that's a place where I don't think we fully tapped all of our potential.

As you think about the role our team plays every day bringing the Target brand to life for our guests. I think there's more that we can lean into there. And so we're excited about the path forward in marketing. It's a space where there's a lot changing with what tech makes possible and the human-centered part of our brand through our team is going to be a critical piece of that story too.

Cara, would you like to share on design?

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

Yeah. It's a huge part of our strategy. If we think about leading with style and design, our powerhouse design organization is really fueling our own brand growth. And this is an organization that we've been building for decades and one that we're really proud of.

And so if we think about even some of the acceleration that we've seen in the third quarter, we've got our design team behind many of that growth in the own brands. And the team is focused, especially in key areas as we talked about where we have more work to do, areas like our home business and our apparel business.

Our design organization is really playing a key role as we think about elevating product quality. We just overhauled 75% of our bedding and bath assortment as an example. You walk into those aisles and you see and feel the impact of our incredible design organization. And we've got more to do as we've talked about. The apparel business, the team is heads down focused on elevating our women's style business.

And the other thing I would add, we announced our (technical difficulty) as our first ever creative director at large, spent time with Isaac in the building this week. He is an incredible creative force, mentoring internally our design organization as well as playing a role with Target and the external design community.

So again, really incredible organization and focused on us elevating our product across the board as we think about leading with style, design and value in all that we do. Thank you.

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Operator

Corey Tarlowe, Jefferies LLC.

Corey Tarlowe - *Jefferies LLC - Analyst*

Great. Thanks and good morning. Nice to see the progress. As you think about the margin opportunities for next year, how would you think about ranking them? And I know we've talked about home and apparel a bunch as a potential benefit not just to sales but to profit as well given the higher margin nature of that category.

But it feels like the momentum on margin has been relatively broad-based and that there's a lot of different diverse drivers. How best to think about ranking those opportunities into next year? Thanks so much.

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

Cary, I'm happy to start, and I'll probably stop shy of Rank ordering next year's margin guide. But we're excited about a lot of what we see as potential as we continue to look ahead when it comes to margin. And you've mentioned one of the things that's definitely on our mind. We are really pleased to see both the top-line growth translate into strong operating income growth this year.

And that's without a couple of our highest margin categories performing like we'd want them to, and so as we build momentum in categories like apparel and home overtime, I would expect that to be helpful to the P&L and to translate to bottom line strength.

We also continue to be really excited about the strength of some of the pieces of the business that flow so directly to the bottom line too, strength of our Roundel business and the momentum that we continue to have there and expect that to be a continued good guy on the margin line too.

And that's a topic I'm sure we'll unpack more as we get into the specifics for how we're thinking about next year. But describing it as broad-based, I think is right. It's not a single thing that we're betting on when it comes to margin. I think there's several places of continued opportunity.

Jim, anything on your list that I've missed?

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

No, I mean, I think you hit a top-line growth, continued growth in non-merchandise categories around Dell and Target+ in particular. And as you mentioned, Cary, like a slight mix headwind, as I talked about in my remarks, from softer results in apparel and home, and as those business starts to grow, those should be positive mix contributors over time.

Operator

Spencer Hanus , Wolfe Research.

Spencer Hanus - *Wolfe Research LLC - Analyst*

Thanks for the question. I was curious if you could talk a little bit more about the cadence of comps that you saw through the quarter. I know you highlighted some softness in October, and then it improved in November, and just how that's informing the guide for 4Q and then also kind of planning for next year as well.

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

Yeah. So as we look at how the quarter came in, we touched on this in remarks again, but we saw strength across all three months of the quarter. I mean, solid growth in all three months, strongest during back to school and back to college, which are at the front end of the quarter.

We saw not quite as much strength in growth as we got into October, but still definitely. We were pleased with a lot of what we saw in the business in October. And then as we shared, so far, while it's very early in the fourth quarter, it's great to see even an acceleration from October as we move into November.

But there's a lot of the quarter in front of us. I feel like we strike that tone, I think, appropriately on every Q3 call. We're a week out from the key holiday and the big weeks of business to come in December, we're really excited about what guests are going to find at Target.

It might be worth just taking a second, Cara and Lisa, to share a little bit about what you're most excited about as we look ahead to the holiday season because from where I sit, we get the benefit in the fourth quarter of all the hard work our teams have done in quarters one, two and three.

For the Target team listening on this call, again, another huge thank you for all the work that you've done because we really get to bring it to life, all the changes we've made across the categories in store, all the work we've done to elevate the guest experience. We get to showcase all of that for our guests as we step into the holiday season. Caren, Lisa?

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

Yeah. I think we hit on certainly a lot to be proud of relative to our holiday assortment, really our focus on the gift giver across the board. But I would say also exciting is we're going to have consistent drumbeats of newness throughout the season. And so next week is a big week for us, but as we turn the corner, we'll be resetting a lot of newness.

Lots of shoppers want to shop right up until the Christmas holiday, and we are going to have really exciting new builds versus even a year ago. Next week is a really exciting week for us. We've already started our exciting Deal of the Days. This year, you can find out what the upcoming Deal of the Days are, which is really exciting.

And then the Black Friday week is always one of our favorites. We've got compelling promotions, as always, and we have some really fun surprises for our guests as we announce first 100 guests will be able to receive a gift card in line on Black Friday.

And I'm personally excited to be part of that with our guests, as we see them really just embracing the experience of the Black Friday week. Yes, great deals, yes, great products, but really the experience with friends and families. Lisa?

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

Yeah, we've talked about our focus on elevating the guest experience. And the holidays are the best time of the year for our guests to be able to come in and truly experience the best of Target. And I think they're going to see that in a number of different ways.

We have a team that is staffed and has been trained on our easy, inspiring and friendly experience and they're ready to go and greet our guests and give them a great experience as they come into our stores this holiday season. And our guests are telling us that they're noticing that difference. They're also going to see it in the experience that they have when they're in the stores.

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We've talked about our new stores, our 32 new stores where our guests get to experience truly the best of Target, as well as the number of remodels that are reaching guests, 2 million new guests who haven't had a Target close to their home before. And so that just gives more guests the opportunity to experience that.

And then for all guests, the number of transformations that we've had in our stores this year has been truly spectacular. It's the most ambitious transformation agenda we've taken on in more than a decade, and our guests are telling us that they're noticing that. And so I want to thank our team for everything that they've done to undertake that transformation.

And where I get excited is that guests are going to discover pieces of that they're just seeing for the first time as we close out some of those activations towards the end of the third quarter. And so we are ready to go from a holiday experience perspective.

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

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

Operator

Simeon Gutman, Morgan Stanley & Co Ltd.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Hey, good morning, everyone. I want to refocus on apparel for a second. When we met in March in, I think, Minnesota, we looked at a lot of new sets that were going to come in apparel. And it's okay if they didn't work, some categories don't.

I guess how should we or why should we be confident and why are you confident in the changes that are being made are going to resonate? And an unrelated part two, Jim, the increase in the credit card income. Is that just a function of sales or there was some other change within that line item?

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

Thanks for the question, Simeon. And as you heard us describe in the call, there are some categories where we still have work to do. It was great to see home move to a positive comp in the third quarter. But as we described, we expect that to be a multi-year journey. And we are satisfied with the flat growth we've seen in apparel year-to-date.

Cara, you want to talk about kind of what we're seeing across the apparel business and then some of what gives you confidence in the work the teams are focused on, especially in women's and shoes?

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

Absolutely. It's important to recognize that we're seeing very different results across the board in total apparel. And so it's important to unpack that majority of our categories are actually growing and many have accelerated. And so if we look like huge businesses for us.

The kids' business is a great one, the men's business, women's swim, young contemporary, these are standout business for us and are driving growth. We've really isolated our challenges to two key categories, the women's business as well as the shoes business that are affecting overall apparel comps.

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I do want to mention though, even in those two businesses, which we are significantly underperforming, there are places that are working. And so if you think about some of the things we talked about back at Financial Community Meeting, we talked about getting faster on our drops, moving from one or two collaborations a year to a more steady cadence of newness and drops.

This year, we've seen significant buzz and traffic every quarter tied to these drops. Brands like Park and Roller Rabbit, this quarter we just announced last week a new partnership with Dairy Boy X Hanes. That consistent newness and beat of buzz is working in our women's business. The other thing we talked about back in March is a refocus on our foundational categories.

The one we highlighted was denim. And as we think about the denim business, the universal thread denim business is actually driving strong growth. That is what is giving me confidence that we know what we need to fix. The reality is we have more foundational categories of work to do in the women's business.

Things like tops, dresses, non-denim bottoms, those are the places that you're going to see us focus as we get into the quarters into 2027. But the proof points that we have in those businesses that we are seeing right now is what's giving me confidence that we're on the right track to fix those businesses over time.

Development cycles, these take times. You don't switch out the entire apparel assortment at once, which is why we've given the consistent cadence of when you're going to start to see that product improvement and when it's going to flow through in the quarters to come.

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

And Simeon, on the credit card question, what we're seeing is underlying solid operating performance, but most of what you're seeing in Q3 is mostly timing. I would look at it more as a year-to-date trend and you can see year-to-date, I think it's up 7%.

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

So maybe just to close because I think the discussion that Cara just had is emblematic of what you can expect for us going forward. We set out to drive a lot of change this year. We knew our ambitions for change were far more than we could do even in one year. And so we're really excited about the pipeline of work to come in 2027 and in some categories, 2028 and beyond.

And we'll bring you along the way. You'll hear us share candidly, here's what's working, here's what's not, here's where we're at on the journey, here's what we're learning. And so, I would expect that to be the spirit of these conversations and all the quarters to come.

But as we step back and look at the progress made by the Target team in the first three quarters of the year, that gives us a lot that we're excited about, not just for the holiday season in front of us, but for years to come. So again, thank you team.

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