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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation third-quarter earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, November 20, 2024.

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

John Hulbert - *Target Corp - Vice President, Investor Relations*

Good morning, everyone, and thank you for joining us on our third-quarter 2024 earnings conference call. On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Rick Gomez, Chief Commercial Officer; Michael Fiddelke, Chief Operating Officer; and Jim Lee, Chief Financial Officer.

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

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

With that, I'll turn it over to Brian for his thoughts on the quarter and his priorities for the fourth quarter and beyond. Brian?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Thanks, John, and good morning, everyone.

I want to start my remarks today by welcoming Jim Lee, to his first conference call as Target CFO. Jim recently joined our team from PepsiCo, where he gained a wealth of experience and numerous positions throughout their business. Since he arrived here in September, Jim has been learning our business, and I've been incredibly impressed with his ability to synthesize large amounts of data, drill into what's most important, generate innovative solutions when presented with problems, and then take quick action to address them. I'm confident you would enjoy getting to know Jim in the quarters and years ahead just as I have over the last several months.

I also want to thank Michael for stepping up and occupying two important roles during the CFO search process. He did an incredible job leading both the finance and operations teams over the first half of the year. And I know both of those teams are grateful for his leadership.

And of course, I want to thank the entire Target team for their leadership in successfully navigating through a difficult environment this quarter, a period that included a number of performance highlights and which also presented multiple challenges across our business. Because of our team's dedication to serving our guests and their focus on delivering newness and strong value, we saw healthy growth in traffic throughout the quarter even as we encountered some macro headwinds that caused our EPS to be lower than expected.

Despite these headwinds, we're encouraged that operating income has grown 6.7% through the first three quarters of the year. We're highly confident in our proven long-term strategy and in our ability to move beyond this current volatility. And importantly, we're continuing to make the right investments in our business that will help us deliver profitable growth in the years ahead. Among the drivers of our comp sales, traffic grew a healthy 2.4% this quarter, representing well over 10 million incremental transactions compared with last year. This growth in traffic was mostly offset by a decline in average ticket as consumers continue to spend cautiously, most notably in discretionary categories. Overall, our third-quarter comp sales increased 0.3%, near the bottom of our expected range.

As you know, we focus on traffic as a key indicator of guest engagement, and the growth we've been seeing is a validation of our guest-focused strategies and our team's commitment to delivering newness, value, and a differentiated experience. We continue to measure year-over-year increases in guest service scores, and we're really pleased with the response to thousands of price reductions we introduced earlier this year, which we're extending with another 2,000 more as we enter the holiday season.

We've also seen strong results in the digital channel, which grew by nearly 11% this quarter. Among our digital services, we saw nearly 20% growth in our same-day delivery, powered by Target Circle 360, as more guests learned about it and respond to the value and convenience this service offers. We also saw double-digit growth in Drive-Up this quarter, which accounted for more than $2 billion in our Q3 sales. We also saw healthy growth in our ship-to-home business in Q3, as guests responded to the changes we made to streamline the shopping experience, increased speed and reliability, and lower our costs by moving more of our shipments through sortation centers.

At the category level, we've seen persistent strength in beauty, which saw a comp increase of more than 6% in the quarter, while our frequency businesses delivered solid growth in both traffic and sales. And we're pleased with our relative performance versus the market in apparel even with a small sales decline in an environment where we saw slow sales of cold weather apparel across the industry.

Our other two discretionary businesses, home and hardlines saw continued softness in Q3 as consumers continue to spend cautiously in these categories. When we assess the consumer and macro environment, we're seeing many of the same themes that have defined the environment for some time. Consumers tell us their budgets remain stretched and they're shopping carefully as they work to overcome the cumulative impact of multiple years of price inflation. They're becoming increasingly resourceful in their shopping behaviors, waiting to buy until last moment of need, focusing on deals, and then stocking up when they find them.

As a result, we're seeing a stronger response to promotions than we've seen in some time. Yet consumers are still willing to spend when they find the right combination of newness and value, and they're continuing to celebrate important seasonal moments throughout the year. Because they worked hard to control their day-to-day spending, consumers sometimes allow themselves to splurge a little bit when they find the right item or the right seasonal moment arrives. As Michael will highlight in more detail, our supply chain faced some unique challenges related to the East Coast and Gulf port strikes.

In order to protect our in-stocks and ensure we're ready for Q4, our team changed the timing of certain shipments and directed a portion of our receipts to other ports. Receipt timing changes and the impact of softer-than-expected sales in discretionary categories resulted in elevated levels of inventory earlier than in a typical year, leading to higher-than-expected costs in our supply chain. While we weren't pleased with this cost pressure, we are confident we took the right steps to safeguard our reliability, as our team's decisive actions protected Q3 in stocks while supporting our Q4 merchandising plans.

Beyond the headwinds in our supply chain, we also faced some unexpected pressure in healthcare and general liability expenses this quarter, which Jim will outline in a few minutes. Another Q3 highlight was our most recent Target Circle week in early October. Guests are responding to the changes we've incorporated into this program, and they appreciate the value it provides at every level. We enrolled nearly 3 million new Target Circle members this quarter, and we'll continue making long-term investments in this loyalty program with a focus on reaching new members and driving incremental engagement among our existing base.

Beyond the profitable traffic and sales we see from Target Circle, this program also helps us learn more about our guests and their preferences, which in turn helps to fuel our Roundel ad business. Roundel delivered mid-teen growth in Q3, benefiting both our total revenue and gross margin rate, while driving deeper connections among our guests, the Target brand, and our vendors.

In a few minutes, Rick will highlight our merchandising and marketing plans for the holiday season. And while we're really excited about them, we're also focused on controlling what we can control and planning the business cautiously given the volatility we've been seeing. While we aren't happy about the reduction in our outlook for the remainder of the year, we believe we're managing our business appropriately, and we're helping our teams stay agile and ready to respond if we see our business accelerate.

And our Q4 plan is focused on ending this year with an inventory position that will best position our business going into 2025. Importantly, we're still confident in our long-term strategy. Traffic growth shows that we're winning with our guests, and we're making the long-term investments that have delivered strong performance over decades. This includes capital investments in our existing stores, in full remodels, smaller refreshes, and layout changes to increase the efficiency of our same-day services.

We're investing in our digital experience in our website, app, and our full menu of fulfillment capabilities to become even more reliable and convenient for our guests. We're investing in our new store program based on strong performance of this year's openings and a robust pipeline of new locations planned for 2025. We're making smart investments in technology including AI to allow our team to do more for our guests more quickly. We're investing in our own brand portfolio, which delivers a unique combination of style and value that differentiates our assortment from everyone else in the marketplace.

We're delivering value through our investments in lower every day prices and the deals we offer to our Target Circle members and the compelling promotions we'll deliver throughout the holiday season. And we're continuing to invest in our team to ensure they can deliver a differentiated, joyful Target guest experience across every channel, every day throughout the year.

With Thanksgiving right around the corner, I want to pause and acknowledge the efforts of my fellow team members, most notably in our stores and supply chain facilities, who have been spending months preparing for our busiest season of the year. Throughout the company, our team members bring enormous energy to their work. But in the fourth quarter, they shift into an even higher gear. I want to thank them for everything they do to make Target Target.

Now I'll turn the call over to Rick.

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

Thanks, Brian, and good morning, everyone. I'm excited to highlight everything we have planned for this holiday season, but first, I'd like to start by sharing our current view of the consumer and some color around our third-quarter results.

As Brian mentioned, our view of the consumer is largely consistent with what we've shared in prior quarters. Consumers remain pressured but are willing to spend when they find the right balance of on-trend newness at compelling price points. They continue to make difficult trade-offs, trying to save on everyday essentials to free up some of their budget for those new must-have items. We've often described consumers as resilient despite the challenges they are facing, and that is still true. However, I might add something to that description today.

Beyond resilient, consumers have also become increasingly resourceful. They know there are deals to be found. They're willing to wait for sales and willing to search across multiple retailers to find them. For example, our Target Circle week this quarter was one of our biggest yet. However, we saw a more pronounced sales dip both the week before and the week after the event, showing just how planful consumers are in seeking out promotions when they shop.

Similarly, we saw consumers lean into everyday essential stock-up promotions throughout the quarter to further stretch their monthly budgets. Turning to the third quarter. Comparable sales grew 0.3% reflecting strong performance on our digital platforms, where sales grew nearly 11%.

Throughout the quarter, we faced continued volatility across our business and broadly softer sales in discretionary categories as compared with Q2. As I mentioned earlier, we saw a strong reaction to promotions throughout the quarter. While the depth of these promotions was similar to last year, our guest responses to these offers were much more pronounced. Compared to a year ago, promotional markdown rates have increased meaningfully, and year-to-date are up around 1 percentage point.

In terms of the category performance, sales and market share gains were strongest in beauty again this quarter with comparable sales growth of more than 6%. This strong performance was broad-based with growth in our core beauty business as well as our Ulta Beauty at Target offerings. Newness across the portfolio resonated with a wide array of consumers including growing affinity with younger Gen Z guests from Blake Lively's exclusive to Target hair care line, Blake Brown, to the continued success of mini sizes that offer those little indulgences, our beauty assortment continues to be a standout with our guests.

Our food & beverage and essentials categories both grew in the low single digits this quarter. In food, strength spanned the portfolio. Guests particularly love the season's Halloween candy and snacks as well as new seasonal flavors from Good & Gather and Favorite Day with new on-trend flavors helping to drive preference for our own brands, which continue to gain share.

In essentials, new items in nutrition categories like meal supplements and protein powders are performing very well. Additionally, since the launch of our limited time offering, the Cuddle Collaboration, featuring fun and stylish products for pets and pet owners, we have seen a meaningful acceleration in comp trends in the pets category. And through the insights we gain from Target Circle, we can now issue personalized offers to guests that shop at Collaboration and help them engage with our broader pets assortment in bigger ways.

In apparel, despite our comparable sales being down a little less than 1%, we were pleased with our relative performance compared to the industry. Unseasonably warm weather made for volatile weekly and regional trends, but in weeks when we saw cooler weather year over year, comp growth ranged from the low single digits to the high single digits in those regions. This gives us confidence that our seasonal offerings are resonating with consumers, and as weather turns colder more consistently, this should bode well for our apparel sales trends.

Despite challenging weather, we've seen strength in our women's apparel business, including young contemporary, driven by strength from wild fable game day assortments, featuring mix-and-match apparel items in an array of team colors starting at $5 and everything under $30. Women's performance was also strong, especially with $25 all-in motion leggings featuring incredibly soft fabrication with a pop of glitter.

We've also been very pleased with the relaunch of our intimates and sleepwear brand, Auden, which is outperforming our expectations. Consistent with industry trends, hardlines categories continue to be under pressure with comparable sales down in the low single digits. Despite this overall softness, we saw strong back-to-school performance with particular strength in backpacks. We've also seen new toy offerings resonating with guests, including the launch of Ms. Rachel Toys with characters and tie-ins to her wildly successful YouTube series.

And finally, in home, our third-quarter comp sales were down mid-single digits. Trends were relatively soft across the portfolio with bright spots in decorative accessories, led by fall newness, which grew comparable sales in the mid-teens and our affordable home refresh program with key partners like Hearth & Hand by Magnolia and Threshold by Studio McGee, both of which grew around 40% versus last year.

And finally, because of our unique well-balanced assortment, we can move beyond a focus on driving performance within our merchandising categories and create innovation and excitement between them as well in ways that others simply can't. As a perfect example, in Q3, we introduced powerhouse brands, Elf Cosmetics and Stanley. So guests can now match their favorite lip gloss color to their trendy drinkware. This innovative program is selling incredibly well and shows how we not only act on current trends but help to create new ones as well.

As we turn the page to Q4, those cross-merchandising opportunities only grow more compelling. In just two days, the most anticipated theatrical release of the year hits theaters. Universal Studios' Wicked opens Friday, and we are so excited to be the ultimate fan destination for this film. We're offering more than 150 movie-inspired items spanning apparel, toys, beauty, food, home and more. Nearly 70% of the items are available only at Target, including an apparel line created by the film's costume designer, Paul Tazewell.

Our guests will be immersed in the magic of Oz through Wicked theme store displays, shop-in-shops, digital experiences, and other surprises throughout the season. And beyond the wow factor of this exclusive assortment, we brought the magic to our marketing campaign, featuring the film's star, Cynthia Erivo, with a huge response from Target and Wicked fans alike on our social channels. Building on the theme of creating magical moments in the fourth quarter, our plans for this holiday season are designed to inspire wonder and awe. And throughout the holiday season, we want to make sure we offer the perfect balance of value, newness, ease, and inspiration.

Value will be on full display all season long from our everyday low prices to compelling promotions that help families celebrate the seasons. After an incredible response to our price reductions on 5,000 everyday items earlier this year, we reduced prices on an additional 2,000 items to drive traffic and help celebrate the holidays. We'll also be returning with some popular promotions like our Deal of the Day, which started on the first of this month and runs throughout the holiday season. And new this year, we recently held an early Black Friday sale just a couple of weeks ago.

It's hard to believe that Thanksgiving is next week, and from turkey to tabletop decor, we have everything families will need to gather together. This year, we're bringing back our popular Thanksgiving meal deal, now only $20 for a family of four which is $5 lower than last year. The meal includes turkey at just $0.79 per pound as well as stuffing and five additional side dishes. Plus, we're offering a wide variety of hosting and gift-giving options including fresh flowers, wine, Good & Gather charcuterie trays, and on-trend housewares from owned brands like Threshold and Figment. And while our stores are closed on Thanksgiving Day, helping our team members to celebrate with loved ones, we'll be back at it on Black Friday to keep the holiday momentum going.

And when you don't feel like cooking on the day after Thanksgiving, well, we'll be helping out by offering a free frozen pizza for our Target Circle 360 members. And speaking of the day after Thanksgiving, we recently announced two exclusive Taylor Swift releases available only at Target that we'll be launching only in stores on Black Friday before moving the assortment online the next day while supplies last. The official Taylor Swift: The Eras Tour book provides a comprehensive behind-the-scenes view into the cultural phenomenon of Taylor Swift: The Eras Tour, including never-before-seen photos and personal reflections written by Taylor. In addition, we have exclusive versions of The Tortured Poets Department: The Anthology on both vinyl and CD, featuring 35 tracks, including 4 acoustic bonus songs.

And while these exclusives are sure to be top on Swifties' wish lists, we have exciting gifting options for everyone in the family, all at unbeatable prices. More than half of our holiday toys are under $20, and thousands of stocking stuffers are under $5. But we know that consumers don't want to choose between value and newness. They want both.

And at Target, they won't have to choose. Our holiday assortment is our biggest ever with 50% more new items compared to last year. These include exciting new toys from the biggest brands like Disney, LEGO, and FAO Schwarz as well as our Only at Target brand, GiggleScape.

In beauty, we'll offer more than 100 new items, including incredible gift set options. This year's assortment is a great range of giftable items starting at just $5 with nearly 2/3 of this assortment priced under $10. In food, we'll be offering more than 700 new items in on-trend seasonal flavors, featuring new cookie and ginger bread kits for the whole family to enjoy building and eating.

And again, this season, our partnership with British retailer, Marks & Spencer, will offer the best shortbread, candy, and Christmas treats from across the pond, and for the first time, new home items like London-themed ornaments and mugs all under $20.

We've also worked to make shopping easier than ever this season. Of course, guests can rely on our industry-leading same-day services like order pick-up, drive-up, and same-day delivery with Target Circle 360, but we're also making it easier to determine that perfect gift. With the new gift ideas page on our website and app, consumers can be inspired to find the perfect gift for that special someone, all on a set budget. And for those who want to make it clear what they're hoping to find under the tree this year, our digital holiday wish list feature removes the guess work for their loved ones. Plus our price match guarantee assures guests that no matter when and how they choose to shop, they'll get the best prices we have planned for the season.

And like the bow on top of that perfect present, our marketing will tie it all together, immersing consumers in magic, imagination, and larger-than-life moments. Target guests will be transported to a land of iconic peppermint swirls and fantastical forest landscapes from in-store pop-up experiences to holiday TV and social spots that will leave them feeling festive, we want all families to have happier holidays, courtesy of their friends at Target.

As I get ready to pass the baton over to Michael, I want to pause and thank our teams for the many ways they show up for this brand, for our guests, and for their communities. Every day, I am humbled by the talent and passion this team brings. And I am reminded of how special it is to work among world-class colleagues, retail leaders, and friends. Thank you all for all you do to make Target Target.

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

Michael Fiddelke - *Target Corp - Executive Vice President, , Chief Operating Officer*

Thanks, Rick. The fourth quarter is here. And in short, we are ready. While some consumers are already done with their holiday shopping, some are waiting for those major promotional events like Black Friday or Cyber Monday, and others won't start thinking about their Christmas list until the last minute.

And across the operations team, we've been forming our plans, securing inventory, assessing the external environment, and preparing for the season for months now. As you heard already from both Brian and Rick, macro headwinds and increased volatility throughout the third quarter, both expected and unexpected, resulted in financial and operational challenges for our business. But despite these challenges, because of all the effort our team has put into the planning, we feel great about our ability to serve guests this holiday season.

Beyond the normal considerations of running a large retail business, unusual weather patterns, port strikes, and overseas port delays added to the complexities of the quarter. This year's hurricane season has been particularly devastating for so many communities. While we're grateful that our team members in affected areas are safe, we also know that the damage from Hurricanes Helene and Milton has been vast, and impacted communities are still recovering. In advance of the storm, we closed dozens of stores and a few supply chain facilities to keep our guests and team members safe.

After the storms passed, we carefully assessed each location, and we're able to reopen nearly all of our facilities within 24 hours. These storms as well as unseasonably warm weather throughout the quarter, created higher spikes and lower troughs than would otherwise be expected, displaying the resilience of our supply chain in advance of peak holiday volume this quarter.

We also successfully navigated the challenges presented by the port disruptions on the East Coast and Gulf ports. We had been closely monitoring the situation for months. In anticipation of a potential strike, our team took decisive action to route select shipments to West Coast ports to protect key seasonal programs for the fourth quarter.

This came at a cost, but allowed us to be well positioned for our guests through the strike and into the holiday season. Thankfully, the strike was short-lived. We'll continue to watch the situation closely in the lead-up to continued negotiations in January.

We also saw higher-than-expected volatility in receipt timing in some Asian ports early in the quarter. Collectively, the impacts from the port strikes and receipt timing volatility drove additional costs in the quarter. Fortunately, our teams were able to navigate this volatility incredibly well. So our inventory position and operations are well prepared for the holiday season.

One quick final note on inventory. Third-quarter ending inventory on our balance sheet was about 3% higher than a year ago. That said, as we've done before, we often compare back to 2019 as a useful way to look beyond the volatility we've seen in our business over the last five years. And by that comparison, you'll see that our Q3 sales this year versus 2019 have grown slightly faster than ending inventory over the same period.

I'd like to take a minute to thank those teams throughout our stores and supply chain at headquarters and around the world for managing through each of these challenges head on. Their care and commitment to each other and to serving our guests regardless of the trials at hand, makes me incredibly proud of this team, and it's the incredible work of this team that has us ready to delight our guests this season, with the type of amazing holiday experience you can only find at Target. Thank you, Team Target, for all you do to show up for this brand and for our communities day in and day out.

As you've heard me share on these calls for a while now, we remain laser-focused on our retail fundamentals with the goal of continuing to improve our level of service for consumers. High on that list is our focus on being consistently in stock for our guests, when, where, and how they want to shop.

And once again this quarter, our in-stock position improved meaningfully from already strong results a year ago. But as I mentioned before, in stocks are only one way to measure inventory reliability. If we have inventory on the shelf, that product is considered in stock, but that might not be enough depth to support the combination of in-store and digital demand. As such, we also track a metric we call purchasability which helps us protect our guests in-store and digital shopping experiences.

Here's an example. If stock in an item begins to run low, we may choose to make the item temporarily unpurchaseable for same-day fulfillment in order to protect the in-store shopping experience. The team has been working hard to reduce the number of times this happens, and we're encouraged that consistent with our in-stock trends, we've significantly improved our purchasability metrics year-over-year. But to be clear, for both in-stocks and purchasability, we won't mistake progress for potential and we're hard at work to continue improving inventory reliability for our guests.

Beyond making sure our inventory is in the right place, we also want to make sure our new stores are ideally located as well. Already, three out of four Americans live within 10 miles of a Target store, and our properties team constantly monitors population and migration trends to determine where a new location might best serve a growing community. This year, that work helped us secure locations for 23 new stores, 13 of which just opened this past quarter from Miami, Florida to El Monte, California, to Waukee in my home state of Iowa, thousands of consumers will newly experience the joy of having a Target in their own backyards. And clearly, our guests in these neighborhoods are responding, as this portfolio of new stores is performing ahead of our expectations.

In addition to new stores, we're also investing in our existing store fleet. From the work we've done to enhance our front of store experience to the investments we've made to find the top talent in the markets where we operate, we're relentless in our pursuit of making sure that our stores provide a joyful, convenient, and efficient shopping experience. And while there is always room to improve, by nearly every measure we track, our extensive survey data indicates we are making meaningful progress.

More specifically, Net Promoter Scores for wait times at checkout lanes, satisfaction with team member interactions at both checkout and while shopping, ability to find products, and the cleanliness of our stores are all up year over year.

And of course, we're making investments in our digital business as well. And the name of the game here is speed across all types of digital fulfillment. In ship-to-home fulfillment with stores close to our guests and our sortation centers handling 25% more packages than last year, we're faster than ever, shipping packages to guest homes, helping power the healthy sales growth we're seeing in our ship to home business. In fact, as of the third quarter, average shipping times across our network are nearly a day faster than this time a year ago.

We've also implemented changes to reduce split shipments, driving an increase in units fulfilled per package, eliminating a source of friction for our guests and reducing last mile delivery costs as well. All together, our sortation centers have saved the company tens of millions of dollars in last mile delivery costs so far this year when compared to other fulfillment options. And when it comes to speed, there's nothing faster than our same-day services, which is why we continue to rely on guest feedback to build upon these already loved services, making them even better.

This year, our target app became available for use in Apple CarPlay and Android Auto, making us the first retailer to offer guests the ability to navigate to a store for a curbside order using these phone-based technologies. In addition, based on feedback we've received from our guests, we recently rolled out the ability to opt out of plastic bags for drive-up and in-store pickup orders. This not only allows us to better serve these guest preferences, it has also helped save the cost of millions of plastic bags.

And finally, beyond the investments we've made in drive-up and in-store pickup, we've also been investing heavily in our same-day delivery capabilities through Target Circle 360. Since the relaunch of Target Circle in April, we've seen a meaningful increase in the number of Target Circle 360 memberships, and thanks to the incredible efforts of our partners at Shipt, we are not only able to meet the rapid growth in demand, we've maintained the already high Net Promoter Scores this offering consistently generates. And of course, beyond same-day shopping, our Shipt powered capabilities play a critical role in helping us deliver packages from sortation centers more quickly and less expensively than through alternative carriers.

Before I pass things off to Jim, I'd like to echo Brian, and welcome him to his first earnings call. As Jim and I have worked together through the first few months of his onboarding process, I've already seen what a curious, compassionate, and strategic leader he is, and I couldn't be happier to have him on the Target team. I'll continue to work closely with Jim as he ramps up in leading our finance function, and I'm excited to see what that team will accomplish under Jim's guidance and leadership.

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

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

Thanks, Michael. I've long admired the Target brand and its differentiated positioning within American Retail. And since I've arrived here, I've enjoyed getting to know the Target team and gain a much deeper understanding of our business. I've also developed a greater appreciation for the company's long-term strategic advantages, including our unique stores as hub model that Target pioneered nearly a decade ago, a large, profitable and growing owned brand portfolio coupled with an outstanding collection of national brands and unique partnerships.

A robust business model that includes strong retail operations and a broad footprint of capabilities, including Target Circle, Roundel, and our third-party marketplace, Target Plus, and a strong culture behind a capable team that's passionate about our brand and committed to caring, growing, and winning together. Having gained deeper insights into these assets, I'm even more excited about our potential to deliver sustainable and profitable growth in the years ahead.

Turning to our third-quarter financial results. Our comparable sales increase of 0.3% was near the low end of our expected range, while EPS came in below expectations due to soft discretionary trends and multiple cost headwinds, some of which were unique to the quarter. Among the drivers of our comparable sales, healthy guest traffic growth of 2.4% was largely offset by a 2% decline in average ticket. This decline was driven primarily by softness in our discretionary categories, where consumers are shopping cautiously as they manage their household budgets.

Within the quarter, monthly comps were strongest in October as guests responded to our Target Circle week promotions, and we saw sequential improvement in discretionary categories. While store comparable sales were down 1.9%, we were pleased with our digital comp growth of 10.8%.

Within digital, same-day delivery powered by Target Circle 360 increased nearly 20%. We also saw double-digit growth in drive-up and a healthy increase in ship to home volume. On the other revenue line, we saw growth of 11.5% in the quarter, driven primarily by continued rapid growth in our Roundel ad business.

Our operating margin rate of 4.6% was down about 60 basis points from a year ago, reflecting the combined impact of softer-than-expected sales in our highest margin categories and cost pressures on both the gross margin and SG&A expense lines. Overall, our gross margin rate was about 20 basis points lower than last year. Among the drivers, we saw about 90 basis points of pressure from digital fulfillment and supply chain costs resulting from multiple factors, including the incremental supply chain costs that Michael outlined earlier and the impact of double-digit growth in digital sales.

Offsetting this pressure, we saw about 50 basis points of financial benefit related to inventory shrink and about 20 basis points of benefit in merchandising. One note, the gross margin rate impact of merchandise mix was approximately flat in Q3, down from a 40-basis-point benefit in Q2. This change was driven primarily by a slowdown in our highest-margin discretionary categories, apparel and home, whose comp trends both decelerated about 4 percentage points when compared with Q2. Our SG&A expense rate increased about 50 basis points in the third quarter, reflecting multiple cost pressures, some of which were unexpected, combined with topline sales near the low end of our expected range.

Among the most notable drivers, we saw higher-than-expected general liability costs, a trend that's occurring more broadly, and higher-than-expected healthcare costs as well. All together, our Q3 GAAP and adjusted EPS was $1.85 compared with $2.10 a year ago.

Year to date, both GAAP and adjusted EPS have increased 8.3% compared with last year. As I turn now to cash flow and capital deployment, I want to reiterate our priorities, which have been consistent for decades and remain firmly in place today. We first look to invest fully in the business in projects that meet our strategic and financial criteria.

Second, we look to support the dividend and build on our record of growing the dividend annually, something we've done since 1971. And finally, we look to return any excess cash beyond those first two uses by repurchasing shares over time within the constraints of our middle A credit ratings. Regarding the first priority, we've invested just under $2 billion in CapEx year to date, and with updated project timing, we expect our full-year CapEx will be near the low end of our guidance range for the year at $3 billion or slightly lower. As Brian mentioned, we have a robust pipeline of new stores and remodels along with supply chain and technology projects that we expect will generate strong returns over time.

Based on expected project timing, we're anticipating 2025 CapEx will range between $4 billion and $5 billion, near the middle of the long-run expectation Michael outlined earlier this year. Regarding the second priority, we paid dividends of $516 million in the third quarter, up from $507 million a year ago. And finally, we deployed $354 million to retire about 2.4 million of our shares in Q3.

Given our cash position and our expectations going forward, we expect to continue repurchasing shares in Q4 as well. I'll end my commentary on the quarter with some comments on after-tax ROIC, which measures the quality of our capital investments over time. In the third quarter, our trailing 12-month after-tax ROIC was 15.9%, 2 percentage points higher than a year ago. While our mid-teens after-tax return is quite strong, our long-term plans anticipate further expansion of this metric into the high teens over time.

Now I want to move to our expectations for Q4. As Brian mentioned, we're focused on planning the business cautiously based on the volatility we've encountered so far this year. Our expectations also reflect some unique attributes of this year's calendar including the loss of five shopping days between Thanksgiving and Christmas and the shift in this year's fiscal calendar after last year's 53rd week.

While these calendar impacts are difficult to isolate, we estimate they could amount to nearly 1 percentage point headwind to our fourth-quarter comps. In addition, as we outlined a year ago, last year's 53rd week contributed about $1.7 billion to our total sales and an estimated $200 million to our operating income. Note that the extra week did not affect last year's reported comp sales as they're based on periods of equal length.

With all that as context, I'll turn to our updated guidance. On the top line, we're anticipating fourth quarter comparable sales in a range around flat reflecting continued softness in discretionary categories and the calendar headwinds I mentioned earlier. If we end up near the middle of that Q4 range, it would translate to a slightly negative comp for the full year. On the bottom line, our expectations reflect this updated view of comparable sales, updated SG&A expectations including ongoing cost pressures, and our commitment to ending the quarter in an appropriate inventory position for the new fiscal year.

Consistent with our prior guidance, we believe the P&L impact of inventory shrink will be approximately flat in Q4, and we expect to continue to benefit from our ongoing efficiency work. All together, our updated range for the fourth quarter, GAAP and adjusted EPS is $1.85 to $2.45, translating to an updated full year range of $8.30 to $8.90 a share. This new full year range brackets the lower end of our initial guidance back in March in light of the sales and profit headwinds that have emerged in the back end of this year. Having outperformed our profit expectations through Q2 it's disappointing that a deceleration in discretionary demand, combined with multiple cost pressures have caused us to take down our guidance after raising it last quarter.

Given ongoing consumer uncertainty, we believe it's prudent to take this conservative approach while taking swift and disciplined action to position ourselves to win during the holidays and in 2025. Looking ahead, we remain confident in the long-term trajectory of our business given the strength of our strategy, the assets we have in place, and investment projects in our pipeline. While current conditions are quite challenging, we're confident that demand in discretionary categories will normalize, and our team has shown they can find efficiencies to help offset the cost pressures we're facing. As Michael shared earlier this year, this company generated strong financial performance over the last decade, and I believe we can generate compelling top and bottom line growth in the decade ahead.

As I said earlier, since I joined the team, I've become even more excited about our prospects, and I look forward to sharing our progress in the years ahead.

Now I'll turn the call back over to Brian for some closing remarks. Brian?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Thanks, Jim. Before we move to your questions, I want to pick up on a couple of thoughts Jim provided in his remarks, namely, I want to highlight the assets and the strategy underlying our business model, and how we can leverage those assets to deliver on the long-term financial goals Michael shared at our Financial Community Meeting back in March. We often highlight how we work to differentiate our merchandising offering and shopping experience from others in the marketplace.

In pursuit of that goal, we invest in differentiated assets across our business. These include the locations where we build our stores, our unparalleled design and sourcing capabilities, our huge owned brand portfolio, best-in-class national brands and partnerships, an advertising business that far outpunches its weight, and a rapidly growing online marketplace in Target Plus. We also have one of the largest loyalty programs in America, which includes a large and valuable payment card program and a nationwide same-day delivery service.

In support of these capabilities, we have made significant investments to build the best team in retail, across our stores, supply chain and headquarters, all of whom are aligned behind our brand. We put these assets to work through a differentiated strategy that includes our unique stores as hubs model, a curated merchandising approach that spans both wants and needs and a fulfillment offering that highlights speed and convenience, while leaning into the power of genuine human interaction.

Those are combined with a singular focus on value that includes low prices and compelling deals, combined with an elevated assortment and experience. So even as we encounter short-term headwinds, like we've seen recently, we immediately focus on leveraging our assets and strategy to move beyond those challenges. For example, while we're confident that discretionary demand will normalize over time, we can continue to lean on our beauty and frequency categories to help offset those topline pressures, just as we have over the last couple of years. And when we begin to see unexpected cost pressures like we've encountered recently, we look for ways to leverage growth in Roundel and our ongoing efficiency work to help offset those pressures.

But it all starts with the consumer, focusing on our guests and building deeper engagement with them serves as the underlying foundation of our work to build a profitable and sustainable business and deliver for our shareholders over time. I'd point out our Q3 traffic growth of 2.4%, representing more than 10 million additional transactions compared with last year as evidence of that focus. As we sit here today, we're confident we have the right assets, the right strategy, and the right team in place to attain our strategic and financial goals.

As always, we appreciate your engagement and your participation in this call and look forward to sharing our progress with you over time. With that, we'll turn to your questions.

Now Rick, Michael, Jim, and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions)

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley Co. LLC - Analyst*

My first question is on the unique costs that you mentioned, can you tell us or quantify what the magnitude was? How it was split among gross and SG&A? And if you can, what level of unique costs are embedded into the fourth quarter guidance?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Michael, do you want to start?

Michael Fiddelke - *Target Corp - Executive Vice President, , Chief Operating Officer*

Yes, I'd be happy to. Thanks for the question, Simeon. If you step back and look at the profit outcomes in Q3 and what's on our mind as we guide for Q4, and Jim summarized a lot of it in his remarks. I'd start with, we saw a deceleration in a couple of our highest margin categories.

So home and apparel, both decelerated about 4 percentage points from Q2. And so the profit impact of the softer-than-expected sales. We certainly felt in Q3, and we believe we've got the business guided appropriately cautiously in those categories as we think to Q4, and we're committed to ending the year clean from an inventory perspective. .

You click further down the list. I mentioned in my remarks, we had some additional costs as we prepositioned some inventory in advance of preparing for the port strike, that's obviously unique to this year thing. We feel like it was the right decision, ensure we're in stock in a situation that we were monitoring closely, and we were pleased with how that played out from a guest experience perspective. And then Jim also mentioned a few unique things on the SG&A side.

And while I have a ton of confidence in the team's ability to find efficiencies to offset some of those headwinds over time, that's not always appropriate or prudent to do within a month or a quarter. You can do some shortsighted things. If you pull the wrong levers too quickly there. But given this team's track record of building back profitability over time, I have a lot of confidence we'll find the right efficiencies for us.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Jim, anything else you want to add?

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

Yeah. I mean, specifically on the SG&A line, we mentioned general liability and healthcare costs. You can dimensionalize that as approximately 1% of the increase in SG&A that you saw in the quarter.

Simeon Gutman - *Morgan Stanley Co. LLC - Analyst*

Okay. Can I ask a follow-up maybe for Brian or Rick? This year was about reinvigorating top line, and you've introduced newness and innovation to try to push through this backdrop. The consumer is not showing up. And I know you're not discouraged by it, but does your approach or the risk appetite and what you're doing change, especially as you holiday and you're going to try to end the year clean, do you step back? Or do you keep pushing through and taking a little more risk?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Yeah. Simeon, well, we certainly have to embrace some of the short-term macro challenges. You've heard us say this for years, we're going to play the long game and make sure we're doing the right thing for the long-term interest of our company and shareholders, and even in a difficult Q3 environment, one of the things we've highlighted is the strength in traffic, up 2.4%. That equated to 10 million incremental transactions during the quarter.

So we feel really good about the fact that consumers are choosing Target whether it's in-store or online. We feel really good about the expansion of our digital performance, and that bodes well for the short term. But certainly, long term, we're going to continue to lean into our digital assets. So seeing digital grow by almost 11% really encouraging. We've talked about the importance of our Target Circle 360 delivery to home program, and that grew at almost 20%, and we'll continue to make sure we're investing in building awareness around that unique capability.

Drive-up continues to be a point that differentiates for us and again saw double-digit growth, and it's a really important part of our digital offering. So while there's some unique short-term headwinds we're facing, we're going to play the long game, continue to invest in value and newness.

And we saw some bright spots even in discretionary categories. Michael and Rick have both talked about the deceleration we saw in apparel. But we continue to take share in those categories. And even within apparel, there's some real bright spots.

We think about how we're performing with all-in motion in the apparel performance category, growing double digits, taking share in that very important category, both short term and long term. So we'll continue to make sure we're investing in newness, investing in value, investing in our stores and digital channel, and playing the long game. And I think there's a number of green shoots in front of us that we're going to continue to leverage in the fourth quarter but certainly in the 2025 and beyond.

Operator

Rupesh Parikh, Oppenheimer.

Rupesh Parikh - *Oppenheimer & Co. Inc. - Analyst*

So just going back to the lingering disruption and category weakness, what's your team's latest thoughts on the recovery in discretionary, do you expect a better outlook in 2025?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Rick, you want to spend some time talking about what we're seeing in some of our big discretionary categories?

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

Sure. I'd be happy to. And I'd start with apparel. We are pleased with our apparel performance. While it was slightly down in the third quarter, there are lots of bright spots.

In particular, we are very excited about what we're seeing with performance, our all-in motion brands delivering double-digit growth. We're excited about that. It's based on new fabrication, new colors, an outstanding price point at leggings at $25, broad at $16. And we're also seeing bright spot in women's apparel, both a new day in Wild Fable, our young contemporary brand, both of which are bringing new styles, new fashion, new colors, and we're seeing the consumer respond to that. And we expect that to continue.

It's also worth noting, when we saw the weather break in select markets, we saw a 600-basis-point improvement. And that really bodes well for our apparel assortment as the weather gets colder consistently. And then if you think about some of our other discretionary categories, both and hardlines, they're challenged from an industry perspective, and we're not happy with where we are.

We want to get these businesses to growth. But what we would say is there are some bright spots. In particular, I would focus on home. When we deliver newness in home, we see the consumer respond.

We're seeing that right now with some of our key partnerships, whether it's Hearth & Hand with Magnolia or its Threshold with Studio McGee, when we launched that fall newness, the consumer is responding. And so that is very encouraging for us. And then within hardlines, that, like I said, is a challenge from an industry perspective. We don't see consumers buying big-ticket items like TVs.

However, they are looking for affordable ways to freshen up their home. They're looking for ways to add a little bit of seasonal to core. So we see decorative accessories. Things like frames, candles, vases, performing really well, delivering growth, and that, we think, also bodes well as we go into the holidays, and we expect consumers to want to continue to refresh in their home with the new holiday decor.

So as we look at the discretionary business, what we see is the consumer is willing to shop as long as it's new, it's on trend at affordable price.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Rupesh, I'll only add a couple of points. As we think about 2025, those discretionary categories will continue to represent upwards of 50% of our business. As Rich just discussed, we'll continue to lean into innovation and newness and value, and we've got to make sure we don't get ahead of the consumer and ahead of the macro trends. So we'll plan appropriately. We'll plan cautiously. We'll look for green shoots, and we'll follow trends, but we've got to make sure we're staying in step with the consumer.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs & Company, Inc. - Analyst*

You made a pointed comment about how consumers are waiting for sales and leaning into promotions more so than they did previously, it sounds like even compared to last quarter. I was just curious on why do you think this is happening now as I think the consumer has been choiceful and making decisions for a while now. And has this caused you to alter how you're approaching Q4 when it comes to pricing and promotions?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Kate, it is a trend we've seen for quite some time now. And I think over the last couple of years, we've talked about a very resilient consumer I think sitting here today, we'll change it to a resourceful consumer. And I think as we look at shopping behavior and certainly behavior we've seen in Q3, and we expect to see going into Q4, we know that consumers are looking for value. They are looking for promos and deals when they're shopping for those everyday essentials. And they're shopping carefully and taking some of those savings to find those unique items in discretionary categories that they really want.

We think that's going to continue. So we're going to make sure that we're leaning into the right value throughout the holiday season, bundling that newness with great value and recognizing that we got to make sure we're staying again in step with that consumer, providing the value, the uniqueness that they're looking for when they shop Target. That's a trend that I think we are going to see in the fourth quarter, and we'll certainly see some of that continue in 2025.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS - Analyst*

My first question is, in a world where consumers are concentrating their spend amongst a very few number of retailers, does Target need to do anything different or invest anymore to increasingly be amongst that consideration set and position itself in an even better way to generate more consistent performance?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Michael, I'm happy to start and then invite Michael and Jim and Rick to add their perspective. But I think we've got to continue to make sure Target is being Target. And we're using our unique mix of great national brands, our strength in own brands, those unique partnerships. Rick talked about an exciting partnership that will come to life on Black Friday, partnering with Taylor Swift, which will be a traffic driver for our business during an important holiday period.

But we're going to continue to invest in our stores, Michael talked about, we're really encouraged with some of the new stores we've opened in 2024. We've had a big pipeline over the next 10 years. We know expanding our footprint is going to be important. We'll continue to lean into our digital assets, and we saw some great proof points in Q3.

We've got to continue to build out our digital assets, whether it's pick-up or drive-up or delivery to home, we'll continue to lean into those spaces. So we're going to continue to make sure we're delivering the delight and the joy consumers are looking for, they expect from us, whether they're shopping our stores, visiting our sites. We'll continue to deepen our partnerships with national brand partners, accelerate our own brand portfolio, and constantly look for those new partnerships that drive traffic and engagement in our brand. We'll continue to lean into our Circle program, and we talked about in Q3 alone, we had another 3 million members, that's an important way for us to continue to deepen our engagement.

We're very pleased with the work we're doing on the retail media side, and Roundel has become a critical asset for us. And we saw again mid-teen growth in the third quarter. We'll continue to deliver in that space for years to come. So we'll continue on our current strategy, stay in step with the consumer, and make sure Target is doing the things that consumers across America expect from us.

Michael Fiddelke - *Target Corp - Executive Vice President, , Chief Operating Officer*

Yeah, I'm happy to build just a little bit on that. You've heard us say before, Michael, we've got a consumer, our guests who likes to shop, and I'll remind everyone that we round to maybe a three share in the categories in which we compete. So we see a lot of runway for growth over time, and we're excited about the foundation we're building now in support of that.

Brian touched on a few of the things, but maybe just to double-click into the strength of the digital business that we saw in the quarter. Digital up almost 11%, real strength around some intentional work the team did to relaunch Circle with the Circle 360 program to see same-day delivery growing by 20%. And I remind everyone that that's a really important investment in the long term. We know when we make it easy to shop Target in all those different ways, guests reward us with more spend at Target over time.

And so that increased spend in total, that increase spend even in store that comes when a guest becomes a Circle 360 member that uses the same-day delivery. We're really excited about some of the foundation that we're building for the long term. You can see it in the digital growth and the way that will pay off over time, you can see it in the traffic numbers, and so we're managing the short term appropriately but making the right investments for the long term.

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

I do think what differentiates Target is our multi-category business. And so as we go into the holiday season, you can get the turkey meal for $20 for a family of four, but you can also get the tabletop decor. You can get the home decorations. And with our party shop, you can now get all of the apparel for those festivications through the season.

So I do think that is something that really differentiates Target is our one-stop shop for everything that you need for the holiday season.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

And while I know Jim is still new to Target, I'd love to get his early perspective.

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

Yeah. I mean, Michael, it's a great question. I mean, I think just two months in, it's clear to me that making sure that we are unique, and we are targeting Target. That's important for how we think about our business and even just to extend it to our third-party marketplace Target Plus. We carefully carried our partners to make sure that we're on brand as we think about growth in that category and that business model. So it's important for us to ensure we stay on brand.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Michael, I thought you did a terrific job on CNBC this morning, kind of talking about the state of the state, and we've already spent a lot of time today talking about some of the macro headwinds we're facing in discretionary categories. We know over time, those trends will reverse.

And it's still going to be really important that we're a destination for apparel and provide great design and style and on-trend apparel. We know the home category will rebound over time. We know America is going to buy sporting goods and toys. So there's some macro short-term headwinds that we've got to embrace and understand.

But long term, we think the strength of our business model, our multi-category portfolio, that unique blend of national brands and own brands, the strength we have in both a great physical experience and a digital experience, those are going to be the hallmarks of Target going forward, and we've got to make sure we're focused on the long term and leaning into the things that American consumers expect from Target.

Michael Lasser - *UBS - Analyst*

Brian, if I could just follow up on that one last one which is the message that investors are interpreting from some of the discussion today is that Target is going to have a lot of upside when the discretionary categories improve, it's focused on newness, and the innovation that Target is known for in the marketplace. So is the message that investors should interpret that maybe some of the consistency that others are reporting is not present with Target right now, but there's going to be more upside with Target as there is a recovery in some of these areas, and would you be willing to trade some of the upside in those areas for even more consistency from quarter to quarter?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Michael, we certainly see upside in the future and some of the macro trends change. But sitting here today, we're leaning into the things that consumers want. And Rick talked about some of the strength in our food and beverage business, the strength in essentials, the strength in beauty. We want to make sure we're continuing to lean into those trends and consistently growing the top line, improving our share position. We're going to make sure that we're ready for these big seasonal moments.

And despite some of the macro headwinds we've seen really for eight or nine quarters in discretionary categories, we continue to see a consumer who's shopping for those seasonal moments and whether it's celebrating Mother's Day or Fourth of July, getting ready for Halloween, that Thanksgiving meal, and the Christmas season, we know those are still really important moments for consumers. Those are Target moments, and we're going to make sure we lean in and win.

So we're certainly looking for an improvement in our performance over time. We're not pleased where we are today, but we see a lot of green shoots and a lot of long-term opportunities to continue to advance our business, a destination for consumers who are shopping our stores or visiting our online assets, and continue to be that place where consumers come for that magical Target experience where we bring those great national brands, our great own brands, and those unique partnerships that you can only find at Target.

Operator

Karen Short, Melius Research.

Karen Short - *Melius Research - Analyst*

So I have three questions that are a little unrelated. The first is, as it relates to apparel, what is fashion as a percent of sales versus basics? And would you look to pivot a little more into basics versus fashion. The second question is, how to think about inventory risk if there is any in 4Q, and then the third is just CapEx at 4% of sales. Is that now a steady state?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Karen, I'll let Rick talk about apparel, let Michael talk about inventory. And we'll let Jim talk about our CapEx and think about the coming year. Rick, do you want to start with apparel?

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

Sure. I'll start with apparel. And kind of in short, how we think about apparel and how we think about the trends is really listening to the consumer, putting the consumer first.

We have a really, really talented design team who are always looking at what is emerging, what's going to be relevant, and what's going to resonate with the guests. And right now, what we're seeing is newness, fashion, style, trend at a really compelling price. And it's that combination that is really working.

WildTable is a perfect example of that. When we get those both right, the fashion plus the right price point, the right fabrication and colors, we see the consumer respond.

Michael Fiddelke - *Target Corp - Executive Vice President, , Chief Operating Officer*

On the inventory side, Karen, we've touched a little bit on this already. But if you look at the balance sheet, we're up about 3% year over year as we closed the quarter.

And we feel good that we're well positioned to be in stock across the balance of the holiday season. If you walk through the front doors of a Target store right now or see us online, it's great to see an excellent trim set. It's great to see the newness in apparel. And so we think we're well positioned for the holidays.

It's also important that we finish the year clean from an inventory perspective, and we feel really good that we've got the fourth quarter guided in a position that allows us to accomplish that goal.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Jim?

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

And then on CapEx, as I mentioned in my remarks, we'll close this year at about $3 billion or slightly lower than that. And then looking out to 2025, as we look at our pipeline of new stores and remodels and technology and supply chain investments, we're anchoring at about $4 billion to $5 billion of CapEx for 2025.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Operator, I know we're running a little long, but why don't we take one last question today.

Operator

Robbie Ohmes, Bank of America.

Robbie Ohmes - *BofA Global Research (US) - Analyst*

I think one thing that would be helpful, is there any sort of how should we think of what the one-time impacts are from supply chain inefficiencies and receipt timing? And is there any way to quantify the pressures that were sort of one-time in the third quarter and maybe in the fourth quarter as well that you could get back next year?

And then I also just wanted to clarify were there any sales impacts related to supply chain or receipt of goods that impacted 3Q that are also going to impact sales in the fourth quarter? And then the last question is Target Circle relaunch. Is Target Circle impacting costs on a negative way more than you would have expected following that launch?

Michael Fiddelke - *Target Corp - Executive Vice President, , Chief Operating Officer*

Yeah. Thanks for the question, Robbie. I'll kind of go back a little bit to my answer to Simeon's question. If you think about the big factors in Q3 and the things that are on our mind as we guide for the fourth quarter, it's being appropriately cautious based on the trends we've seen in the discretionary categories. And some of that deceleration shows up the profit outcomes in Q3 and factors into our guide for Q4.

Apparel and home are high-margin category, and to see them decelerate like they did, that factors into our profit outcomes and our guidance. And important, we want to end the year clean in both of those categories. As you click further down the P&L, there were some things that were certainly more unique due to factors this year like moving inventory around the port strike, and we feel good that we're on the other side of that now.

And then further down the P&L on the expense side, we saw some expenses creep up versus the trends that they had had prior to we've seen earlier in the year, and we'll work to manage through those over time. And like I said, progress the team has made in efficiency work over time gives me a lot of confidence that we'll be able to work to build back against that.

But it all starts with the top line, the investments we're making in the top line. And even your last question on the Circle 360 launch, I think, is a great may be place to bridge to because we're really excited with the guest response we've seen in Circle 360. It's great to see us add 3 million new members to Circle in total. And it's great to see same-day delivery growing at almost 20% in the quarter. And we think those are all things that are quite accretive to the top line and the bottom line over time.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Operator, that concludes our third-quarter call. I appreciate everyone joining us, and wish you a happy holiday. We'll see you in 2025. .

Operator

Goodbye.