

TARGET CORP
Form 10-Q
November 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended November 3, 2018

Commission File Number 1-6049

TARGET CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|------------------------------------|
| Minnesota | 41-0215170 |
| | (I.R.S. |
| (State or other jurisdiction of incorporation or organization) | Employer Identification No.) |
| 1000 Nicollet Mall, Minneapolis, Minnesota | 55403 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: 612/304-6073

Former name, former address and former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

| | | |
|-------------|-------------|-----------------|
| Large | Accelerated | Non-accelerated |
| accelerated | filer o | filer o |
| filer x | | |

| | |
|-----------|-----------------|
| Smaller | Emerging growth |
| reporting | company o |
| company o | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practicable date. Total shares of common stock, par value \$0.0833, outstanding at November 21, 2018 were 521,833,603.

TARGET CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations

| | Three Months Ended | | Nine Months Ended | |
|---|------------------------|------------------------|------------------------|------------------------|
| | October 28, 2017 | October 28, 2017 | October 28, 2017 | October 28, 2017 |
| (millions, except per share data) (unaudited) | November 2018 | November 2017 | November 2018 | November 2017 |
| | As Adjusted (a) | As Adjusted (a) | As Adjusted (a) | As Adjusted (a) |
| Sales | \$ 17,590 | \$ 16,647 | \$ 51,699 | \$ 49,052 |
| Other revenue | 231 | 227 | 680 | 679 |
| Total revenue | 17,821 | 16,874 | 52,379 | 49,731 |
| Cost of sales | 12,535 | 11,712 | 36,400 | 34,330 |
| Selling, general and administrative expenses | 3,937 | 3,733 | 11,347 | 10,686 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 530 | 582 | 1,639 | 1,620 |
| Operating income | 819 | 847 | 2,993 | 3,095 |
| Net interest expense | 115 | 251 | 352 | 521 |
| Net other (income) / expense | (9) | (15) | (21) | (44) |
| Earnings from continuing operations before income taxes | 713 | 611 | 2,662 | 2,618 |
| Provision for income taxes | 97 | 135 | 530 | 798 |
| Net earnings from continuing operations | 616 | 476 | 2,132 | 1,820 |
| Discontinued operations, net of tax | 6 | 2 | 7 | 7 |
| Net earnings | \$ 622 | \$ 478 | \$ 2,139 | \$ 1,827 |
| Basic earnings per share | | | | |
| Continuing operations | \$ 1.17 | \$ 0.87 | \$ 4.01 | \$ 3.31 |
| Discontinued operations | 0.01 | — | 0.01 | 0.01 |
| Net earnings per share | \$ 1.18 | \$ 0.88 | \$ 4.02 | \$ 3.33 |
| Diluted earnings per share | | | | |
| Continuing operations | \$ 1.16 | \$ 0.87 | \$ 3.98 | \$ 3.30 |
| Discontinued operations | 0.01 | — | 0.01 | 0.01 |
| Net earnings per share | \$ 1.17 | \$ 0.87 | \$ 3.99 | \$ 3.31 |
| Weighted average common shares outstanding | | | | |
| Basic | 525.9 | 544.5 | 531.5 | 548.7 |
| Dilutive impact of share-based awards | 5.3 | 3.4 | 4.7 | 3.1 |
| Diluted | 531.2 | 547.9 | 536.2 | 551.8 |
| Antidilutive shares | — | 4.5 | — | 4.1 |

Note: Per share amounts may not foot due to rounding.

See accompanying Notes to Consolidated Financial Statements.

(a) Refer to Note 2 regarding the adoption of new accounting standards for revenue recognition, leases, and pensions, including impacts on previously reported results.

Consolidated Statements of Comprehensive Income

| (millions) (unaudited) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--|-------------------|--|
| | November 2018 | October 28, 2017 As Adjusted (a) | November 2018 | October 28, 2017 As Adjusted (a) |
| Net earnings | \$ 622 | \$ 478 | \$2,139 | \$ 1,827 |
| Other comprehensive income | | | | |
| Pension, net of tax | 13 | 8 | 42 | 22 |
| Currency translation adjustment and cash flow hedges, net of tax | (4) | (2) | (9) | 6 |
| Other comprehensive income | 9 | 6 | 33 | 28 |
| Comprehensive income | \$ 631 | \$ 484 | \$2,172 | \$ 1,855 |

See accompanying Notes to Consolidated Financial Statements.

(a) Refer to Note 2 regarding the adoption of new accounting standards for revenue recognition, leases, and pensions, including impacts on previously reported results.

Consolidated Statements of Financial Position

| (millions) (unaudited) | November 3, 2018 | February 3, 2018 As Adjusted (a) | October 28, 2017 As Adjusted (a) |
|--|---------------------|---|---|
| Assets | | | |
| Cash and cash equivalents | \$ 825 | \$ 2,643 | \$ 2,725 |
| Inventory | 12,393 | 8,597 | 10,517 |
| Other current assets | 1,421 | 1,300 | 1,444 |
| Total current assets | 14,639 | 12,540 | 14,686 |
| Property and equipment | | | |
| Land | 6,069 | 6,095 | 6,087 |
| Buildings and improvements | 29,090 | 28,131 | 27,946 |
| Fixtures and equipment | 5,784 | 5,623 | 5,548 |
| Computer hardware and software | 2,660 | 2,645 | 2,658 |
| Construction-in-progress | 384 | 440 | 389 |
| Accumulated depreciation | (18,380) | (18,398) | (17,979) |
| Property and equipment, net | 25,607 | 24,536 | 24,649 |
| Operating lease assets | 1,997 | 1,884 | 1,861 |
| Other noncurrent assets | 1,329 | 1,343 | 813 |
| Total assets | \$ 43,572 | \$ 40,303 | \$ 42,009 |
| Liabilities and shareholders' investment | | | |
| Accounts payable | \$ 11,959 | \$ 8,677 | \$ 9,986 |
| Accrued and other current liabilities | 4,096 | 4,094 | 3,875 |
| Current portion of long-term debt and other borrowings | 1,535 | 281 | 1,366 |
| Total current liabilities | 17,590 | 13,052 | 15,227 |
| Long-term debt and other borrowings | 10,104 | 11,117 | 11,090 |
| Noncurrent operating lease liabilities | 2,046 | 1,924 | 1,901 |
| Deferred income taxes | 970 | 693 | 915 |
| Other noncurrent liabilities | 1,782 | 1,866 | 1,784 |
| Total noncurrent liabilities | 14,902 | 15,600 | 15,690 |
| Shareholders' investment | | | |
| Common stock | 43 | 45 | 45 |
| Additional paid-in capital | 5,867 | 5,858 | 5,762 |
| Retained earnings | 5,884 | 6,495 | 5,895 |
| Accumulated other comprehensive loss | (714) | (747) | (610) |
| Total shareholders' investment | 11,080 | 11,651 | 11,092 |
| Total liabilities and shareholders' investment | \$ 43,572 | \$ 40,303 | \$ 42,009 |
| Common Stock Authorized 6,000,000,000 shares, \$0.0833 par value; 521,810,597, 541,681,670 and 543,913,318 shares issued and outstanding at November 3, 2018, February 3, 2018 and October 28, 2017, respectively. | | | |

Preferred Stock Authorized 5,000,000 shares, \$0.01 par value; no shares were issued or outstanding during any period presented.

See accompanying Notes to Consolidated Financial Statements.

(a)

Refer to Note 2 regarding the adoption of new accounting standards for revenue recognition, leases, and pensions, including impacts on previously reported results.

Consolidated Statements of Cash Flows

| (millions) (unaudited) | Nine Months Ended | |
|--|----------------------|---|
| | November 2018 | October 28, 2017 As Adjusted (a) |
| Operating activities | | |
| Net earnings | \$2,139 | \$ 1,827 |
| Earnings from discontinued operations, net of tax | 7 | 7 |
| Net earnings from continuing operations | 2,132 | 1,820 |
| Adjustments to reconcile net earnings to cash provided by operations | | |
| Depreciation and amortization | 1,826 | 1,809 |
| Share-based compensation expense | 106 | 81 |
| Deferred income taxes | 261 | 33 |
| Loss on debt extinguishment | — | 123 |
| Noncash losses / (gains) and other, net | 85 | 209 |
| Changes in operating accounts | | |
| Inventory | (3,796) | (2,277) |
| Other assets | (140) | (88) |
| Accounts payable | 3,298 | 2,735 |
| Accrued and other liabilities | (158) | (25) |
| Cash provided by operating activities—continuing operations | 3,614 | 4,420 |
| Cash provided by operating activities—discontinued operations | 10 | 75 |
| Cash provided by operations | 3,624 | 4,495 |
| Investing activities | | |
| Expenditures for property and equipment | (2,873) | (2,049) |
| Proceeds from disposal of property and equipment | 39 | 27 |
| Other investments | 15 | (62) |
| Cash required for investing activities | (2,819) | (2,084) |
| Financing activities | | |
| Change in commercial paper, net | 490 | — |
| Additions to long-term debt | — | 739 |
| Reductions of long-term debt | (268) | (1,093) |
| Dividends paid | (1,001) | (1,001) |
| Repurchase of stock (Note 10) | (1,485) | (618) |
| Accelerated share repurchase pending final settlement (Note 10) | (450) | (250) |
| Stock option exercises | 91 | 25 |
| Cash required for financing activities | (2,623) | (2,198) |
| Net (decrease) / increase in cash and cash equivalents | (1,818) | 213 |
| Cash and cash equivalents at beginning of period | 2,643 | 2,512 |
| Cash and cash equivalents at end of period | \$825 | \$ 2,725 |

See accompanying Notes to Consolidated Financial Statements.

(a)

Refer to Note 2 regarding the adoption of new accounting standards for revenue recognition, leases, and pensions, including impacts on previously reported results.

Consolidated Statements of Shareholders' Investment

| | Common Stock Shares | Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) / Income | Total |
|---|---------------------------|-----------------------|----------------------------------|----------------------|--|------------|
| (millions) (unaudited) | | | | | | |
| January 28, 2017 | 556.2 | \$ 46 | \$ 5,661 | \$ 5,846 | \$ (638) |) \$10,915 |
| As Adjusted ^(a) | | | | | | |
| Net earnings | — | — | — | 2,914 | — | 2,914 |
| Other comprehensive income | — | — | — | — | 8 | 8 |
| Dividends declared | — | — | — | (1,356) | — | (1,356) |
| Repurchase of stock | (17.6) |) (1) |) — | (1,026) | — | (1,027) |
| Stock options and awards | 3.1 | — | 197 | — | — | 197 |
| Reclassification of tax effects to retained earnings | — | — | — | 117 | (117) |) — |
| February 3, 2018 | 541.7 | \$ 45 | \$ 5,858 | \$ 6,495 | \$ (747) |) \$11,651 |
| As Adjusted ^(a) | | | | | | |
| Net earnings | — | — | — | 2,139 | — | 2,139 |
| Other comprehensive income | — | — | — | — | 33 | 33 |
| Dividends declared | — | — | — | (1,012) | — | (1,012) |
| Repurchase of stock | (19.0) |) (2) |) — | (1,451) | — | (1,453) |
| Accelerated share repurchase pending final settlement | (3.5) |) — | (163) |) (287) | — | (450) |
| Stock options and awards | 2.6 | — | 172 | — | — | 172 |
| November 3, 2018 | 521.8 | \$ 43 | \$ 5,867 | \$ 5,884 | \$ (714) |) \$11,080 |

We declared \$1.90 and \$1.84 per share dividends for the nine months ended November 3, 2018 and October 28, 2017, respectively, and \$2.46 per share for the fiscal year ended February 3, 2018.

See accompanying Notes to Consolidated Financial Statements.

^(a) Refer to Note 2 regarding the adoption of new accounting standards for revenue recognition, leases, and pensions, including impacts on previously reported results.

Notes to Consolidated Financial Statements (unaudited)

1. Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial statements. While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the financial statement disclosures in our 2017 Form 10-K.

We use the same accounting policies in preparing quarterly and annual financial statements. Certain prior-year amounts have been reclassified to conform to the current year presentation. Note 2 provides information about our adoption of new accounting standards for revenue recognition, leases, and pensions. Unless otherwise noted, amounts presented within the Notes to Consolidated Financial Statements refer to our continuing operations.

We operate as a single segment that includes all of our continuing operations, which are designed to enable guests to purchase products seamlessly in stores or through our digital channels. Virtually all of our revenues are generated in the United States. The vast majority of our long-lived assets are located within the United States.

Due to the seasonal nature of our business, quarterly revenues, expenses, earnings, and cash flows are not necessarily indicative of the results that may be expected for the full year.

2. Accounting Standards Adopted

Revenue Recognition

We adopted Accounting Standards Update (ASU) No. 2014-09—Revenue from Contracts with Customers (Topic 606), as of February 4, 2018, using the full retrospective approach. The new standard did not materially affect our consolidated net earnings, financial position, or cash flows. The new standard resulted in minor changes to the timing of recognition of revenues for certain promotional gift card programs.

For the three and nine months ended October 28, 2017, we reclassified profit-sharing income under our credit card program agreement to Other Revenue from Selling, General and Administrative Expenses (SG&A). In addition, we reclassified certain advertising, rental, and other miscellaneous revenues, none of which was individually significant, from Sales and SG&A to Other Revenues.

Leases

We adopted ASU No. 2016-02—Leases (Topic 842), as of February 4, 2018, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption and in comparative periods that approximates the results of a full retrospective approach. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements.

In addition, we elected the hindsight practical expedient to determine the lease term for existing leases. Our election of the hindsight practical expedient resulted in the shortening of lease terms for certain existing leases and the useful lives of corresponding leasehold improvements. In our application of hindsight, we evaluated the performance of the

leased stores and the associated markets in relation to our overall real estate strategies, which resulted in the determination that most renewal options would not be reasonably certain in determining the expected lease term.

Adoption of the new standard resulted in the recording of additional net lease assets and lease liabilities of approximately \$1.3 billion and \$1.4 billion, respectively, as of February 4, 2018. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as an adjustment to retained earnings. The standard did not materially impact our consolidated net earnings and had no impact on cash flows.

Pensions

In the first quarter of 2018, we adopted ASU No. 2017-07—Compensation – Retirement Benefits (Topic 715) using the full retrospective approach. The new standard requires employers to disaggregate and present separately the current service cost component from the other components of net benefit cost within the Consolidated Statement of Operations. For the three and nine months ended October 28, 2017, we reclassified \$(15) million and \$(44) million, respectively, of non-service cost components of net benefit cost to Net Other (Income) / Expense from SG&A on our Consolidated Statements of Operations.

Effect of Accounting Standards Adoption on Consolidated Statement of Operations

| (millions, except per share data) (unaudited) | Three Months Ended October 28, 2017 As Previously Reported | Effect of the Adoption of | | | Three Months Ended October 28, 2017 As Adjusted |
|---|--|-------------------------------------|------------------------|-----------------------|---|
| | | ASC Topic 606 (Revenue Recognition) | ASC Topic 842 (Leases) | ASU 2017-07 (Pension) | |
| Sales | \$ 16,667 | \$(20) ^(a) | \$ — | \$ — | \$ 16,647 |
| Other revenue | — | 227 ^(a) | — | — | 227 |
| Total revenue | 16,667 | 207 | — | — | 16,874 |
| Cost of sales | 11,712 | — | — | — | 11,712 |
| Selling, general and administrative expenses | 3,512 | 207 ^(a) | (2) ^(b) | 15 ^(c) | 3,733 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 574 | — | 9 ^(b) | — | 582 |
| Operating income | 869 | — | (7) ^(b) | (15) ^(c) | 847 |
| Net interest expense | 254 | — | (3) ^(b) | — | 251 |
| Net other (income) / expense | — | — | — | (15) ^(c) | (15) |
| Earnings from continuing operations before income taxes | 615 | — | (4) ^(b) | — | 611 |
| Provision for income taxes | 137 | — | (1) ^(b) | — | 135 |
| Net earnings from continuing operations | 478 | — | (3) ^(b) | — | 476 |
| Discontinued operations, net of tax | 2 | — | — | — | 2 |
| Net earnings | \$ 480 | \$— | \$ (3) ^(b) | \$ — | \$ 478 |
| Basic earnings per share | | | | | |
| Continuing operations | \$ 0.88 | | | | \$ 0.87 |
| Discontinued operations | — | | | | — |
| Net earnings per share | \$ 0.88 | | | | \$ 0.88 |
| Diluted earnings per share | | | | | |
| Continuing operations | \$ 0.87 | | | | \$ 0.87 |
| Discontinued operations | — | | | | — |
| Net earnings per share | \$ 0.88 | | | | \$ 0.87 |

Note: Per share amounts may not foot due to rounding. The sum of "As Previously Reported" amounts and effects of the adoption of the new standards may not equal "As Adjusted" amounts due to rounding.

Footnote explanations are provided on page 8.

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Effect of Accounting Standards Adoption on Consolidated Statement of Operations

| | Nine Months Ended October 28, 2017 As Previously Reported | Effect of the Adoption of | | | Nine Months Ended October 28, 2017 As Adjusted |
|---|---|---|---------------------------------|-----------------------------|---|
| | | ASC Topic 606 (Revenue Recognition) | ASC Topic 842 (Leases) | ASU 2017-07 (Pension) | |
| (millions, except per share data) (unaudited) | | | | | |
| Sales | \$ 49,113 | \$(61) ^(a) | \$ — | \$ — | \$ 49,052 |
| Other revenue | — | 679 ^(a) | — | — | 679 |
| Total revenue | 49,113 | 618 | — | — | 49,731 |
| Cost of sales | 34,330 | — | — | — | 34,330 |
| Selling, general and administrative expenses | 10,027 | 618 ^(a) | (4) ^(b) | 44 ^(c) | 10,686 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 1,596 | — | 24 ^(b) | — | 1,620 |
| Operating income | 3,160 | — | (20) ^(b) | (44) ^(c) | 3,095 |
| Net interest expense | 532 | — | (10) ^(b) | — | 521 |
| Net other (income) / expense | — | — | — | (44) ^(c) | (44) |
| Earnings from continuing operations before income taxes | 2,628 | — | (10) ^(b) | — | 2,618 |
| Provision for income taxes | 802 | — | (4) ^(b) | — | 798 |
| Net earnings from continuing operations | 1,826 | — | (6) ^(b) | — | 1,820 |
| Discontinued operations, net of tax | 7 | — | — | — | 7 |
| Net earnings | \$ 1,833 | \$— | \$(6) ^(b) | \$ — | \$ 1,827 |
| Basic earnings per share | | | | | |
| Continuing operations | \$ 3.33 | | | | \$ 3.31 |
| Discontinued operations | 0.01 | | | | 0.01 |
| Net earnings per share | \$ 3.34 | | | | \$ 3.33 |
| Diluted earnings per share | | | | | |
| Continuing operations | \$ 3.31 | | | | \$ 3.30 |
| Discontinued operations | 0.01 | | | | 0.01 |
| Net earnings per share | \$ 3.32 | | | | \$ 3.31 |

Note: Per share amounts may not foot due to rounding. The sum of "As Previously Reported" amounts and effects of the adoption of the new standards may not equal "As Adjusted" amounts due to rounding.

(a) For the three and nine months ended October 28, 2017, we reclassified \$170 million and \$512 million, respectively, of profit-sharing income under our credit card program agreement to Other Revenue from SG&A. In addition, we reclassified certain advertising, rental, and other miscellaneous revenues, none of which was individually significant, from Sales and SG&A to Other Revenues.

(b) Relates to lease-term changes under the hindsight practical expedient.

(c) Relates to non-service cost components reclassified to Net Other (Income) / Expense from SG&A.

Effect of Accounting Standards Adoption on Consolidated Statement of Financial Position

| (millions) (unaudited) | February 3, 2018 As Previously Reported | Effect of the Adoption of | | February 3, 2018 As Adjusted |
|--|---|---|---------------------------------|--|
| | | ASC Topic 606 (Revenue Recognition) | ASC Topic 842 (Leases) | |
| Assets | | | | |
| Cash and cash equivalents | \$ 2,643 | \$— | \$— | \$ 2,643 |
| Inventory | 8,657 | (60) ^(a) | — | 8,597 |
| Other current assets | 1,264 | 60 ^(a) | (24) ^(b) | 1,300 |
| Total current assets | 12,564 | — | (24) | 12,540 |
| Property and equipment | | | | |
| Land | 6,095 | — | — | 6,095 |
| Buildings and improvements | 28,396 | — | (265) ^(c) | 28,131 |
| Fixtures and equipment | 5,623 | — | — | 5,623 |
| Computer hardware and software | 2,645 | — | — | 2,645 |
| Construction-in-progress | 440 | — | — | 440 |
| Accumulated depreciation | (18,181) | — | (217) ^(c) | (18,398) |
| Property and equipment, net | 25,018 | — | (482) | 24,536 |
| Operating lease assets | — | — | 1,884 ^(d) | 1,884 |
| Other noncurrent assets | 1,417 | — | (74) ^(e) | 1,343 |
| Total assets | \$ 38,999 | \$— | \$ 1,304 | \$ 40,303 |
| Liabilities and shareholders' investment | | | | |
| Accounts payable | \$ 8,677 | \$— | \$— | \$ 8,677 |
| Accrued and other current liabilities | 4,254 | (14) ^(k) | (146) ^(f) | 4,094 |
| Current portion of long-term debt and other borrowings | 270 | — | 11 ^(g) | 281 |
| Total current liabilities | 13,201 | (14) | (135) | 13,052 |
| Long-term debt and other borrowings | 11,317 | — | (200) ^(g) | 11,117 |
| Noncurrent operating lease liabilities | — | — | 1,924 ^(h) | 1,924 |
| Deferred income taxes | 713 | 4 | (24) | 693 |
| Other noncurrent liabilities | 2,059 | — | (192) ⁽ⁱ⁾ | 1,866 |
| Total noncurrent liabilities | 14,089 | 4 | 1,508 | 15,600 |
| Shareholders' investment | | | | |
| Common stock | 45 | — | — | 45 |
| Additional paid-in capital | 5,858 | — | — | 5,858 |
| Retained earnings | 6,553 | 10 ^(k) | (69) ^(j) | 6,495 |
| Accumulated other comprehensive loss | (747) | — | — | (747) |
| Total shareholders' investment | 11,709 | 10 | (69) | 11,651 |
| Total liabilities and shareholders' investment | \$ 38,999 | \$— | \$ 1,304 | \$ 40,303 |

Note: The sum of "As Previously Reported" amounts and effects of the adoption of the new standards may not equal "As Adjusted" amounts due to rounding.

Footnote explanations are provided on page 10.

Effect of Accounting Standards Adoption on Consolidated Statement of Financial Position

| (millions) (unaudited) | October 28, 2017 As Previously Reported | Effect of the Adoption of | | |
|--|--|---|---------------------------------|--|
| | | ASC Topic 606 (Revenue Recognition) | ASC Topic 842 (Leases) | October 28, 2017 As Adjusted |
| Assets | | | | |
| Cash and cash equivalents | \$ 2,725 | \$— | \$— | \$ 2,725 |
| Inventory | 10,586 | (69) ^(a) | — | 10,517 |
| Other current assets | 1,398 | 69 ^(a) | (23) ^(b) | 1,444 |
| Total current assets | 14,709 | — | (23) | 14,686 |
| Property and equipment | | | | |
| Land | 6,087 | — | — | 6,087 |
| Buildings and improvements | 28,310 | — | (363) ^(c) | 27,946 |
| Fixtures and equipment | 5,548 | — | — | 5,548 |
| Computer hardware and software | 2,658 | — | — | 2,658 |
| Construction-in-progress | 389 | — | — | 389 |
| Accumulated depreciation | (17,880) | — | (99) ^(c) | (17,979) |
| Property and equipment, net | 25,112 | — | (462) | 24,649 |
| Operating lease assets | — | — | 1,861 ^(d) | 1,861 |
| Other noncurrent assets | 887 | — | (74) ^(e) | 813 |
| Total assets | \$ 40,708 | \$— | \$ 1,302 | \$ 42,009 |
| Liabilities and shareholders' investment | | | | |
| Accounts payable | \$ 9,986 | \$— | \$— | \$ 9,986 |
| Accrued and other current liabilities | 4,036 | (14) ^(k) | (149) ^(f) | 3,875 |
| Current portion of long-term debt and other borrowings | 1,354 | — | 12 ^(g) | 1,366 |
| Total current liabilities | 15,376 | (14) | (137) | 15,227 |
| Long-term debt and other borrowings | 11,277 | — | (187) ^(g) | 11,090 |
| Noncurrent operating lease liabilities | — | — | 1,901 ^(h) | 1,901 |
| Deferred income taxes | 944 | 6 | (34) | 915 |
| Other noncurrent liabilities | 1,974 | — | (189) ⁽ⁱ⁾ | 1,784 |
| Total noncurrent liabilities | 14,195 | 6 | 1,491 | 15,690 |
| Shareholders' investment | | | | |
| Common stock | 45 | — | — | 45 |
| Additional paid-in capital | 5,762 | — | — | 5,762 |
| Retained earnings | 5,940 | 8 ^(k) | (52) ^(j) | 5,895 |
| Accumulated other comprehensive loss | (610) | — | — | (610) |
| Total shareholders' investment | 11,137 | 8 | (52) | 11,092 |
| Total liabilities and shareholders' investment | \$ 40,708 | \$— | \$ 1,302 | \$ 42,009 |

Note: The sum of "As Previously Reported" amounts and effects of the adoption of the new standards may not equal "As Adjusted" amounts due to rounding.

(a) Represents estimated merchandise returns, which were reclassified from Inventory to Other Current Assets.

(b) Represents prepaid rent reclassified to Operating Lease Assets.

(c)

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For both periods presented, represents impact of changes in finance lease terms and related leasehold improvements (net of accumulated depreciation) under the hindsight practical expedient and derecognition of approximately \$135 million of non-Target owned properties that were consolidated under previously existing build-to-suit accounting rules.

- (d) Represents capitalization of operating lease assets and reclassification of leasehold acquisition costs, straight-line rent accrual, and tenant incentives.
- (e) Represents reclassification of leasehold acquisition costs to Operating Lease Assets.

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- (f) Represents reclassification of straight-line rent accrual to Operating Lease Assets, partially offset by recognition of the current portion of operating lease liabilities.
- (g) Represents the impact of changes in financing lease terms for certain leases due to the election of the hindsight practical expedient.
- (h) Represents recognition of operating lease liabilities.
For both periods presented, represents derecognition of approximately \$135 million of liabilities related to
- (i) non-Target owned properties that were consolidated under previously existing build-to-suit accounting rules and reclassification of tenant incentives to Operating Lease Assets.
- (j) Represents the retained earnings impact of lease-term changes due to the use of hindsight, primarily from the shortening of lease terms for certain existing leases and useful lives of corresponding leasehold improvements.
- (k) Primarily represents the impact of a change in timing of revenue recognition for certain promotional gift card programs.

3. Revenues

General merchandise sales represent the vast majority of our revenues. We also earn revenues from a variety of other sources, most notably credit card profit sharing income from our arrangement with TD Bank Group (TD).

During the first quarter of 2018, we reclassified certain income streams, including credit card profit sharing income, to Other Revenue on our Consolidated Statements of Operations and conformed prior periods. Note 2 provides additional information.

| Revenues (millions) | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|------------------|-------------------|------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Apparel and accessories | \$ 3,622 | \$ 3,456 | \$10,969 | \$ 10,515 |
| Beauty and household essentials | 4,385 | 4,135 | 13,023 | 12,293 |
| Food and beverage | 3,611 | 3,442 | 10,570 | 10,108 |
| Hardlines | 2,478 | 2,278 | 7,292 | 6,898 |
| Home furnishings and décor | 3,476 | 3,316 | 9,781 | 9,174 |
| Other | 18 | 20 | 64 | 64 |
| Sales | 17,590 | 16,647 | 51,699 | 49,052 |
| Credit card profit sharing | 169 | 170 | 503 | 512 |
| Other | 62 | 57 | 177 | 167 |
| Other revenue | 231 | 227 | 680 | 679 |
| Total revenue | \$ 17,821 | \$ 16,874 | \$52,379 | \$ 49,731 |

Merchandise sales – We record almost all retail store revenues at the point of sale. Digital channel originated sales may include shipping revenue and are recorded upon delivery to the guest or upon guest pickup at the store. Total revenues do not include sales tax because we are a pass-through conduit for collecting and remitting sales taxes. Generally, guests may return national brand merchandise within 90 days of purchase and owned and exclusive brands within one year of purchase. Sales are recognized net of expected returns, which we estimate using historical return patterns and our expectation of future returns. As of November 3, 2018, February 3, 2018, and October 28, 2017, the accrual for estimated returns was \$125 million, \$110 million, and \$127 million, respectively. We have not historically had material adjustments to our returns estimates.

Under certain vendor arrangements the purchase and sale of inventory is virtually simultaneous. We record revenue and related costs gross for the vast majority of these arrangements, with approximately 5 percent of consolidated sales made under such arrangements. We concluded that we are the principal in these transactions for a number of reasons, most notably because we 1) control the overall economics of the transactions, including setting the sales price and realizing the majority of cash flows from the sale, 2) control the relationship with the customer, and 3) are responsible for fulfilling the promise to provide goods to the customer.

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Revenue from Target gift card sales is recognized upon gift card redemption, which is typically within one year of issuance. Our gift cards do not expire. Based on historical redemption rates, a small and relatively stable percentage of gift cards will never be redeemed, referred to as "breakage." Estimated breakage revenue is recognized over time in proportion to actual gift card redemptions.

| (millions) | February 3, 2018 | Gift Cards Issued During Current Period But Not Redeemed (a) | Revenue Recognized From Beginning Liability | November 3, 2018 |
|------------|------------------|--|---|------------------|
| | | | | |

(a) Net of estimated breakage.

Guests receive a 5 percent discount on virtually all purchases and receive free shipping at Target.com when they use their Target-branded credit or debit card (REDcards). The 5 percent discount is included as a sales reduction in our Consolidated Statements of Operations and was \$224 million and \$663 million for the three and nine months ended November 3, 2018, respectively, and \$215 million and \$639 million for the three and nine months ended October 28, 2017, respectively.

Credit card profit sharing – We receive payments under a credit card program agreement with TD. Under the agreement, we receive a percentage of the profits generated by the Target Credit Card and Target MasterCard receivables in exchange for performing account servicing and primary marketing functions. TD underwrites, funds, and owns Target Credit Card and Target MasterCard receivables, controls risk management policies, and oversees regulatory compliance.

4. Fair Value Measurements

Fair value measurements are reported in one of three levels reflecting the valuation techniques used to determine fair value.

| Fair Value Measurements - Recurring Basis | | | Fair Value at | | |
|---|------------------------------|------------------|------------------|------------------|------------------|
| (millions) | Classification | Pricing Category | November 3, 2018 | February 3, 2018 | October 28, 2017 |
| Assets | | | | | |
| Short-term investments | Cash and Cash Equivalents | Level 1 | \$42 | \$ 1,906 | \$ 2,003 |
| Prepaid forward contracts | Other Current Assets | Level 1 | 23 | 23 | 30 |
| Interest rate swaps | Other Noncurrent Assets | Level 2 | — | — | 1 |
| Liabilities | | | | | |
| Interest rate swaps | Other Current Liabilities | Level 2 | 6 | — | — |
| Interest rate swaps | Other Noncurrent Liabilities | Level 2 | 7 | 6 | — |

| Significant Financial Instruments not Measured at Fair Value (a) | November 3, 2018 | February 3, 2018 | October 28, 2017 |
|--|------------------|------------------|------------------|
| (millions) | Carrying Amount | Carrying Amount | Carrying Amount |
| Long-term debt, including current portion (b) | \$10,245 | \$10,440 | \$11,522 |
| | \$10,396 | \$11,155 | \$12,403 |

- (a) The carrying amounts of certain other current assets, commercial paper, accounts payable, and certain accrued and other current liabilities approximate fair value due to their short-term nature.
- (b) The carrying amount and estimated fair value of debt exclude commercial paper, unamortized swap valuation adjustments and lease liabilities.

5. Property and Equipment

We review long-lived assets for impairment when events or changes in circumstances—such as a decision to relocate or close a store or distribution center, discontinue projects, or make significant software changes—indicate that the asset's carrying value may not be recoverable. We recognized no impairment losses during the three months ended November 3, 2018, and \$85 million of impairment losses during the nine months ended November 3, 2018, primarily resulting from planned store closures. We recognized impairment losses of \$1 million and \$89 million during the three and nine months ended October 28, 2017, respectively, primarily resulting from planned or completed store closures and supply chain changes. The impairments are recorded in Selling, General and Administrative Expenses on the Consolidated Statements of Operations.

6. Commercial Paper and Long-Term Debt

During the three and nine months ended November 3, 2018, we issued no new long-term debt and did not repurchase existing long-term debt before its maturity.

In October 2017, we issued unsecured fixed rate debt of \$750 million at 3.9 percent that matures in November 2047. During the three months ended October 28, 2017, we repurchased \$344 million of debt before its maturity at a market value of \$463 million. We recognized a loss on early retirement of approximately \$123 million, which was recorded in Net Interest Expense in our Consolidated Statements of Operations.

We obtain short-term financing from time to time under our commercial paper program. For the three and nine months ended November 3, 2018, the maximum amount outstanding was \$490 million and \$658 million, respectively, and the average daily amount outstanding was \$35 million and \$54 million, respectively, at a weighted average annual interest rate of 2.2 percent and 1.9 percent, respectively. As of November 3, 2018, \$490 million was outstanding and is classified within Current Portion of Long-Term Debt and Other Borrowings on our Consolidated Statement of Financial Position. No balances were outstanding at any time during the nine months ended October 28, 2017.

7. Derivative Financial Instruments

Our derivative instruments primarily consist of interest rate swaps, which we use to mitigate interest rate risk. As a result of our use of derivative instruments, we have counterparty credit exposure to large global financial institutions. We monitor this concentration of counterparty credit risk on an ongoing basis. Note 4 provides the fair value and classification of these instruments.

During the nine months ended November 3, 2018, we entered into two interest rate swaps, each with a notional amount of \$250 million, under which we pay a variable rate and receive a fixed rate. We designated these swaps as fair value hedges. With the addition of these swaps, as of November 3, 2018, four interest rate swaps with notional amounts totaling \$1,500 million were designated as fair value hedges. As of October 28, 2017, two interest rate swaps with notional amounts totaling \$1,000 million were designated as fair value hedges. No ineffectiveness was recognized during the three and nine months ended November 3, 2018 or October 28, 2017.

We recorded expense of \$1 million and \$2 million during the three and nine months ended November 3, 2018, and income of \$2 million and \$8 million during the three and nine months ended October 28, 2017, respectively, within Net Interest Expense on our Consolidated Statements of Operations related to periodic payments, valuation adjustments, and amortization of gains or losses on our interest rate swaps.

8. Leases

We lease certain retail stores, warehouses, distribution centers, office space, land, and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 50 years or more. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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We rent or sublease certain real estate to third parties. Our sublease portfolio consists mainly of operating leases with CVS Pharmacy Inc. for space within our stores.

| Leases (millions) | Classification | November 3, 2018 | February 3, 2018 | October 28, 2017 |
|--------------------------------|--|---------------------|---------------------|---------------------|
| Assets | | | | |
| Operating lease assets | Operating Lease Assets | \$ 1,997 | \$ 1,884 | \$ 1,861 |
| Finance lease assets | Buildings and Improvements, net of Accumulated Depreciation ^(a) | 781 | 836 | 811 |
| Total leased assets | | \$ 2,778 | \$ 2,720 | \$ 2,672 |
| Liabilities | | | | |
| Current | | | | |
| Operating | Accrued and Other Current Liabilities | \$ 162 | \$ 147 | \$ 140 |
| Finance | Current Portion of Long-term Debt and Other Borrowings | 50 | 80 | 79 |
| Noncurrent | | | | |
| Operating | Noncurrent Operating Lease Liabilities | 2,046 | 1,924 | 1,901 |
| Finance | Noncurrent Long-term Debt and Other Borrowings | 867 | 885 | 854 |
| Total lease liabilities | | \$ 3,125 | \$ 3,036 | \$ 2,974 |

^(a) Finance lease assets are recorded net of accumulated amortization of \$352 million, \$317 million, and \$300 million as of November 3, 2018, February 3, 2018, and October 28, 2017, respectively.

| Lease Cost (millions) | Classification | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--|--------------------|------------------|-------------------|------------------|
| | | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Operating lease cost ^(a) | SG&A Expenses | \$ 63 | \$ 55 | \$ 186 | \$ 162 |
| Finance lease cost | | | | | |
| Amortization of leased assets | Depreciation and Amortization ^(b) | 16 | 16 | 49 | 46 |
| Interest on lease liabilities | Net Interest Expense | 10 | 10 | 32 | 31 |
| Sublease income ^(c) | Other Revenue | (3) | (2) | (8) | (6) |
| Net lease cost | | \$ 86 | \$ 79 | \$ 259 | \$ 233 |

^(a) Includes short-term leases and variable lease costs, which are immaterial.

^(b) Supply chain-related amounts are included in Cost of Sales.

Sublease income excludes rental income from owned properties of \$12 million and \$36 million for the three and nine months ended November 3, 2018, respectively, and \$12 million and \$35 million for the three and nine months ended October 28, 2017, respectively, which is included in Other Revenue.

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| Maturity of Lease Liabilities (millions) | Operating Finance | | Total |
|---|-----------------------|-----------------------|----------|
| | Leases ^(a) | Leases ^(b) | |
| 2018 | \$ 59 | \$ 22 | \$ 81 |
| 2019 | 246 | 91 | 337 |
| 2020 | 237 | 88 | 325 |
| 2021 | 230 | 88 | 318 |
| 2022 | 224 | 90 | 314 |
| After 2022 | 1,970 | 940 | 2,910 |
| Total lease payments | \$ 2,966 | \$ 1,319 | \$ 4,285 |
| Less: Interest | 758 | 402 | |
| Present value of lease liabilities | \$ 2,208 | \$ 917 | |

Operating lease payments include \$813 million related to options to extend lease terms that are reasonably certain ^(a) of being exercised and exclude \$363 million of legally binding minimum lease payments for leases signed but not yet commenced.

Finance lease payments include \$122 million related to options to extend lease terms that are reasonably certain of ^(b) being exercised and exclude \$257 million of legally binding minimum lease payments for leases signed but not yet commenced.

| Lease Term and Discount Rate | November 3, 2018 | February 3, 2018 | October 28, 2017 | |
|---|---------------------|---------------------|---------------------|---|
| Weighted-average remaining lease term (years) | | | | |
| Operating leases | 14.4 | 15.2 | 15.5 | |
| Finance leases | 15.4 | 15.4 | 15.0 | |
| Weighted-average discount rate | | | | |
| Operating leases | 3.89 | % 3.88 | % 3.89 | % |
| Finance leases | 4.70 | % 4.64 | % 4.61 | % |

| Other Information | Nine Months Ended | |
|--|----------------------|---------------------|
| (millions) | November 3, 2018 | October 28, 2017 |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | \$ 160 | \$ 146 |
| Operating cash flows from finance leases | 32 | 31 |
| Financing cash flows from finance leases | 67 | 30 |
| Leased assets obtained in exchange for new finance lease liabilities | 29 | 97 |
| Leased assets obtained in exchange for new operating lease liabilities | 228 | 153 |

9. Income Taxes

| (dollars in millions) | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------|---------------------|----------------------|---------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Income tax expense | \$ 97 | \$ 135 | \$ 530 | \$ 798 |
| Effective tax rate | 13.6% | 22.2 % | 19.9 % | 30.5 % |

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For the three and nine months ended November 3, 2018, our income tax rate was 13.6 percent and 19.9 percent, respectively, compared with 22.2 percent and 30.5 percent for the three and nine months ended October 28, 2017, respectively. For the three and nine months ended November 3, 2018, the effective tax rate reflects benefits of the Tax Cuts and Jobs Act (the Tax Act), including the lower federal statutory rate of 21 percent and measurement period adjustments recorded during the third quarter, and to a lesser extent, discrete tax benefits. For the three and nine months ended October 28, 2017, the effective tax rate reflects

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a federal statutory rate of 35 percent offset by prior-period discrete tax benefits of \$55 million and \$56 million, respectively, primarily related to our global sourcing operations.

In 2017, we recorded provisional amounts for certain income tax effects of the Tax Act for which the accounting under ASC Topic 740, Income Taxes, was incomplete but a reasonable estimate could be determined. During the third quarter of 2018, we recorded adjustments to previously-recorded provisional amounts related to the Tax Act, resulting in a \$39 million tax benefit, primarily related to the remeasurement of deferred tax assets and liabilities. During the fourth quarter, we will complete our Tax Act accounting. We do not expect any material adjustments.

Beginning with the first quarter of 2018, we are subject to a new tax on global intangible low-taxed income that is imposed on foreign earnings. We have made an accounting election to record this tax as a period cost and thus have not adjusted any of the deferred tax assets or liabilities of our foreign subsidiaries for the new tax. Impacts of this new tax were immaterial and are included in our provision for income taxes for the three and nine months ended November 3, 2018.

10. Share Repurchase

| (millions, except per share data) | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Total number of shares purchased | 6.3 | 0.2 | 19.0 | 10.8 |
| Average price paid per share | \$84.00 | \$ 58.74 | \$76.38 | \$ 56.80 |
| Total investment | \$526 | \$ 10 | \$1,451 | \$ 611 |

Note: Activity related to the third quarter 2018 and 2017 accelerated share repurchases (ASRs) described below is omitted because the transactions were not fully settled as of November 3, 2018 and October 28, 2017, respectively.

During the third quarter of 2018, we entered into an ASR to repurchase \$325 to \$450 million of our common stock under the existing \$5 billion share repurchase program. Under the agreement, we paid \$450 million and received an initial delivery of 3.5 million shares, which were retired, resulting in a \$287 million reduction to Retained Earnings. As of November 3, 2018, \$163 million is included in the Consolidated Statement of Financial Position as a reduction to Additional Paid-in Capital.

During the third quarter of 2017, we entered into an ASR to repurchase \$150 to \$250 million of our common stock under the existing \$5 billion share repurchase program. Under the agreement, we paid \$250 million and received an initial delivery of 2.5 million shares, which were retired. Upon settlement in the fourth quarter of 2017, we received an additional 0.3 million shares, which were retired, and \$89 million for the remaining amount not settled in shares. In total, we repurchased 2.8 million shares under the ASR for a total cash investment of \$161 million (\$57.78 per share). Within the Consolidated Statements of Cash Flows, we reclassified \$139 million related to the initial share delivery from the ASR entered into during the third quarter 2017 from Repurchase of Stock to Accelerated Share Repurchase Pending Final Settlement to conform to the current year presentation.

11. Pension Benefits

We provide pension plan benefits to eligible team members.

| (millions) | Three Months Ended | Nine Months Ended |
|------------------------------|--------------------|-------------------|
| Net Pension Benefits Expense | | |

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| | November 2018 | | October 2017 | |
|------------------------------------|---------------|-------|--------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | \$ 24 | \$ 21 | \$ 72 | \$ 63 |
| Interest cost | 37 | 34 | 110 | 103 |
| Expected return on assets | (62) | (61) | (185) | (184) |
| Amortization of losses | 20 | 15 | 61 | 45 |
| Amortization of prior service cost | (3) | (3) | (8) | (8) |
| Settlement charges | 1 | — | 4 | — |
| Total | \$ 17 | \$ 6 | \$ 54 | \$ 19 |

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12. Accumulated Other Comprehensive (Loss) / Income

| (millions) | Cash Flow Hedges | Currency Translation Adjustment | Pension | Total |
|---|---------------------|---------------------------------------|-----------|---------|
| February 3, 2018 | \$ (14) | \$ (13) | \$ (720) | \$(747) |
| Other comprehensive income before reclassifications, net of tax | — | (10) | — | (10) |
| Amounts reclassified from AOCI, net of tax | 1 | — | 42 | 43 |
| November 3, 2018 | \$ (13) | \$ (23) | \$ (678) | \$(714) |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

Third quarter 2018 includes the following notable items:

- GAAP earnings per share from continuing operations were \$1.16.
- Adjusted earnings per share from continuing operations were \$1.09.
- Sales increased 5.7 percent.
- Comparable sales increased 5.1 percent, driven by a 5.3 percent increase in traffic.
- Comparable store sales grew 3.2 percent.
- Digital channel sales increased 49 percent, contributing 1.9 percentage points to comparable sales.

As described in Note 2 to the Consolidated Financial Statements, certain prior-year amounts have been adjusted to reflect the impact of adopting Accounting Standards Update (ASU) No. 2014-09—Revenue from Contracts with Customers (Topic 606), ASU No. 2016-02—Leases (Topic 842), and ASU No. 2017-07—Compensation – Retirement Benefits (Topic 715) and adjusted throughout this document to conform to the current year presentation.

Sales were \$17,590 million for the three months ended November 3, 2018, an increase of \$943 million or 5.7 percent from the same period in the prior year. Operating cash flow provided by continuing operations was \$3,614 million for the nine months ended November 3, 2018, a decrease of \$806 million, or 18.2 percent, from \$4,420 million for the nine months ended October 28, 2017. Refer to the Operating Cash Flows discussion within the Liquidity and Capital Resources section of MD&A on page 27 for additional information.

| Earnings Per Share from Continuing Operations | Three Months Ended | | | Nine Months Ended | | |
|---|--------------------|------------------|--------|-------------------|------------------|--------|
| | November 3, 2018 | October 28, 2017 | Change | November 3, 2018 | October 28, 2017 | Change |
| | | As Adjusted (a) | | | As Adjusted (a) | |
| GAAP diluted earnings per share | \$ 1.16 | \$ 0.87 | 33.6 % | \$ 3.98 | \$ 3.30 | 20.5 % |
| Adjustments | (0.07) | 0.04 | | (0.11) | 0.03 | |
| Adjusted diluted earnings per share | \$ 1.09 | \$ 0.90 | 20.2 % | \$ 3.87 | \$ 3.33 | 16.2 % |

Note: Amounts may not foot due to rounding. Adjusted diluted earnings per share from continuing operations (Adjusted EPS), a non-GAAP metric, excludes the impact of certain items. Management believes that Adjusted EPS is useful in providing period-to-period comparisons of the results of our continuing operations. A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 24.

(a) Lease standard adoption resulted in a \$0.01 reduction in GAAP diluted earnings per share from continuing operations (GAAP EPS) for the nine months ended October 28, 2017, and in Adjusted EPS for both the three and nine months ended October 28, 2017, and less than \$0.01 in GAAP EPS for the three months ended October 28, 2017.

For the trailing twelve months ended November 3, 2018, after-tax return on invested capital from continuing operations (ROIC) was 15.8 percent, compared with 13.4 percent for the trailing twelve months ended October 28, 2017. (Note, the adoption of the lease standard reduced ROIC by approximately 0.5 percentage points for all periods presented.) Excluding the discrete impacts of the Tax Cuts and Jobs Act (Tax Act), ROIC was 13.9 percent for the trailing twelve months ended November 3, 2018. The calculation of ROIC is provided on page 26.

Analysis of Results of Operations

| (dollars in millions) | Three Months Ended | | | Nine Months Ended | | | |
|---|--------------------|------------------|--------|-------------------|------------------|--------|----|
| | November 3, 2018 | October 28, 2017 | Change | November 3, 2018 | October 28, 2017 | Change | |
| | | As Adjusted | | | As Adjusted | | |
| Sales | \$ 17,590 | \$ 16,647 | 5.7 | % \$ 51,699 | \$ 49,052 | 5.4 | % |
| Other revenue | 231 | 227 | 1.6 | 680 | 679 | 0.2 | |
| Total revenue | 17,821 | 16,874 | 5.6 | 52,379 | 49,731 | 5.3 | |
| Cost of sales | 12,535 | 11,712 | 7.0 | 36,400 | 34,330 | 6.0 | |
| Selling, general and administrative expenses | 3,937 | 3,733 | 5.5 | 11,347 | 10,686 | 6.2 | |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) | 530 | 582 | (9.0) |) 1,639 | 1,620 | 1.2 | |
| Operating income | \$ 819 | \$ 847 | (3.3) |)% \$ 2,993 | \$ 3,095 | (3.3) |)% |

| Rate Analysis | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | November 3, 2018 | October 28, 2017 | As Adjusted | November 3, 2018 | October 28, 2017 | As Adjusted |
| | | As Adjusted | | | As Adjusted | |
| Gross margin rate | 28.7 | % 29.6 | % 29.6 | % 29.6 | % 30.0 | % |
| SG&A expense rate | 22.1 | 22.1 | 21.7 | 21.7 | 21.5 | |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate | 3.0 | 3.4 | 3.1 | 3.1 | 3.3 | |
| Operating income margin rate | 4.6 | 5.0 | 5.7 | 5.7 | 6.2 | |

Note: Gross margin rate is calculated as gross margin (sales less cost of sales) divided by sales. All other rates are calculated by dividing the applicable amount by total revenue.

Sales

Sales include all merchandise sales, net of expected returns, and gift card breakage. Comparable sales is a measure that highlights the performance of our stores and digital channels by measuring the change in sales for a period over the comparable, prior-year period of equivalent length. Comparable sales include all sales, except sales from stores open less than 13 months, digital acquisitions we have owned less than 13 months, stores that have been closed, and digital acquisitions that we no longer operate. Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies. Digital channel sales include all sales initiated through mobile applications and our websites. Digital channel sales may be fulfilled through our stores, our distribution centers, our vendors, or other delivery options, including store pick-up or drive-up and delivery via our wholly-owned subsidiary, Shipt.

The increase in sales during the three and nine months ended November 3, 2018, is due to a comparable sales increase of 5.1 percent and 4.9 percent, respectively, and the contribution from new stores.

| Comparable Sales | Three Months Ended | Nine Months Ended |
|------------------|--------------------|-------------------|
|------------------|--------------------|-------------------|

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| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---|
| Comparable sales change | 5.1 | % 0.9 | % 4.9 | % 0.3 | % |
| Drivers of change in comparable sales | | | | | |
| Number of transactions | 5.3 | 1.4 | 5.1 | 0.9 | |
| Average transaction amount | (0.2 |) (0.5 |) (0.2 |) (0.6 |) |

Note: Amounts may not foot due to rounding.

| Contribution to Comparable Sales Change | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Stores channel comparable sales change | 3.2 | % — | % 3.4 | % (0.6)% |
| Digital channel contribution to comparable sales change | 1.9 | 0.8 | 1.5 | 0.9 |
| Total comparable sales change | 5.1 | % 0.9 | % 4.9 | % 0.3 % |

Note: Amounts may not foot due to rounding.

| Sales by Channel | Three Months Ended | | Nine Months Ended | |
|------------------|---------------------|------------------------------------|---------------------|------------------------------------|
| | November 3, 2018 | October 28, 2017 As Adjusted | November 3, 2018 | October 28, 2017 As Adjusted |
| Stores | 94.0 | % 95.8 | % 94.4 | % 95.8 % |
| Digital | 6.0 | 4.2 | 5.6 | 4.2 |
| Total | 100 | % 100 | % 100 | % 100 % |

Note 3 to the Consolidated Financial Statements provides sales by product category. The collective interaction of a broad array of macroeconomic, competitive, and consumer behavioral factors, as well as sales mix, and transfer of sales to new stores makes further analysis of sales metrics infeasible.

We monitor the percentage of purchases that are paid for using REDcards (REDcard Penetration) because our internal analysis has indicated that a meaningful portion of the incremental purchases on REDcards are also incremental sales for Target. Guests receive a 5 percent discount on virtually all purchases when they use a REDcard at Target.

| REDcard Penetration | Three Months Ended | | Nine Months Ended | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Target Debit Card | 12.9 | % 13.0 | % 13.1 | % 13.3 % |
| Target Credit Cards | 10.8 | 11.4 | 10.8 | 11.3 |
| Total REDcard Penetration | 23.7 | % 24.4 | % 23.9 | % 24.6 % |

Note: Amounts may not foot due to rounding. In Q1 2018, we refined our calculation of REDcard penetration. The prior period amount has been updated to conform with the current period methodology, resulting in an increase of 0.2 percentage points to the Total REDcard Penetration for both the three and nine months ended October 28, 2017.

Gross Margin Rate

For the three and nine months ended November 3, 2018, our gross margin rate was 28.7 percent and 29.6 percent, respectively, compared with 29.6 percent and 30.0 percent in the comparable periods last year. For both periods, the decrease was primarily due to increased digital fulfillment costs as well as increased supply chain expenses primarily driven by the size and timing of holiday-related inventory receipts compared with last year, partially offset by the benefit of merchandising strategies including cost savings initiatives and efforts to improve pricing and promotions.

Selling, General, and Administrative Expense Rate

For the three and nine months ended November 3, 2018, our SG&A expense rate was 22.1 percent and 21.7 percent, respectively, compared with 22.1 percent and 21.5 percent in the comparable periods last year, reflecting higher wages in 2018, offset by cost savings for the three month period.

Depreciation and Amortization Expense Rate

For the three and nine months ended November 3, 2018, our depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate was 3.0 percent and 3.1 percent, respectively, compared with 3.4 percent and 3.3 percent in the comparable periods last year. For the three-month period, the rate decrease was due to higher sales and lower accelerated depreciation compared to the prior year. For the nine month period, the rate impact of higher 2018 sales was partially offset by higher depreciation expense due to increased investment in store assets.

Store Data

| Change in Number of Stores | Three Months Ended | | Nine Months Ended | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Beginning store count | 1,835 | 1,816 | 1,822 | 1,802 |
| Opened | 12 | 12 | 25 | 26 |
| Closed | (1 |) — | (1 |) — |
| Ending store count | 1,846 | 1,828 | 1,846 | 1,828 |

| Number of Stores and Retail Square Feet | Number of Stores | | | Retail Square Feet ^(a) | | |
|--|---------------------|---------------------|---------------------|-----------------------------------|---------------------|---------------------|
| | November 3, 2018 | February 3, 2018 | October 28, 2017 | November 3, 2018 | February 3, 2018 | October 28, 2017 |
| 170,000 or more sq. ft. | 273 | 274 | 276 | 48,778 | 48,966 | 49,326 |
| 50,000 to 169,999 sq. ft. | 1,505 | 1,500 | 1,508 | 189,496 | 189,030 | 190,038 |
| 49,999 or less sq. ft. | 68 | 48 | 44 | 1,984 | 1,359 | 1,268 |
| Total | 1,846 | 1,822 | 1,828 | 240,258 | 239,355 | 240,632 |

^(a) In thousands, reflects total square feet, less office, distribution center, and vacant space.

Other Performance Factors

Net Interest Expense

Net interest expense from continuing operations was \$115 million and \$352 million for the three and nine months ended November 3, 2018, respectively, and \$251 million and \$521 million for the three and nine months ended October 28, 2017, respectively. The decrease is primarily due to a loss on early retirement of debt of \$123 million for the three and nine months ended October 28, 2017, included in net interest expense, and a lower average net portfolio rate during the three and nine months ended November 3, 2018, as compared with the prior year periods.

Provision for Income Taxes

Our effective income tax rate from continuing operations for the three and nine months ended November 3, 2018, was 13.6 percent and 19.9 percent, respectively, compared with 22.2 percent and 30.5 percent for the comparable periods last year.

For the three and nine months ended November 3, 2018, the effective rate reflects benefits from the Tax Act which include the lower federal statutory rate of 21 percent and \$39 million of additional tax benefit from adjustments to previously-recorded provisional amounts, and to a lesser extent, rate benefits from our global sourcing operations.

For the three and nine months ended October 28, 2017, the effective rate reflects the higher 35 percent federal corporate tax rate and rate benefits related to our global sourcing operations, including discrete benefits related to prior periods.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

To provide additional transparency, we have disclosed non-GAAP adjusted diluted earnings per share from continuing operations (Adjusted EPS). This metric excludes certain items presented below. We believe this information is useful in providing period-to-period comparisons of the results of our continuing operations. This measure is not in accordance with, or an alternative for, generally accepted accounting principles in the United States (GAAP). The most comparable GAAP measure is diluted earnings per share from continuing operations. Adjusted EPS should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate Adjusted EPS differently, limiting the usefulness of the measure for comparisons with other companies.

| (millions, except per share data) | Three Months Ended | | | |
|--|----------------------|-------------------------|----------------------------|-------------------------|
| | November 3, 2018 | | October 28, 2017 | |
| | | | As Adjusted ^(a) | |
| | Net Prefix Tax | Per Share Amounts | Net Prefix Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | \$ 1.16 | | \$ 0.87 |
| Adjustments | | | | |
| Tax Act ^(b) | \$ — (39) | \$ (0.07) | \$ — | \$ — |
| Loss on early retirement of debt | — | — | 1235 | 0.14 |
| Income tax matters ^(c) | — | — | —(55) | (0.10) |
| Adjusted diluted earnings per share from continuing operations | | \$ 1.09 | | \$ 0.90 |

| (millions, except per share data) | Nine Months Ended | | | |
|--|----------------------|-------------------------|----------------------------|-------------------------|
| | November 3, 2018 | | October 28, 2017 | |
| | | | As Adjusted ^(a) | |
| | Net Prefix Tax | Per Share Amounts | Net Prefix Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | \$ 3.98 | | \$ 3.30 |
| Adjustments | | | | |
| Tax Act ^(b) | \$ — (39) | \$ (0.07) | \$ — | \$ — |
| Loss on early retirement of debt | — | — | 1235 | 0.14 |
| Income tax matters ^(c) | —(18) | (0.03) | —(56) | (0.10) |
| Adjusted diluted earnings per share from continuing operations | | \$ 3.87 | | \$ 3.33 |

Note: Amounts may not foot due to rounding.

Lease standard adoption resulted in a \$0.01 reduction in GAAP EPS for the nine months ended October 28, 2017, ^(a) and in Adjusted EPS for both the three and nine months ended October 28, 2017, and less than \$0.01 in GAAP EPS for the three months ended October 28, 2017. Refer to Note 2 to the Consolidated Financial Statements.

^(b) Represents measurement period adjustments to previously-recorded provisional amounts related to the Tax Act.

^(c) Represents income from income tax matters not related to current period operations.

Earnings from continuing operations before interest expense and income taxes (EBIT) and earnings before interest expense, income taxes, depreciation and amortization (EBITDA) are non-GAAP financial measures which we believe provide meaningful information about our operational efficiency compared to our competitors by excluding the impact of differences in tax jurisdictions and structures, debt levels, and for EBITDA, capital investment. These measures are not in accordance with, or an alternative for, GAAP. The most comparable GAAP measure is net earnings from continuing operations. EBIT and EBITDA should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate EBIT and EBITDA differently, limiting the usefulness of the measure for comparisons with other companies.

| EBIT and EBITDA (millions) (unaudited) | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|---------------------------------|---------|-------------------|---------------------------------|---------|
| | November 3, 2018 | October 28, 2017 As Adjusted | Change | November 3, 2018 | October 28, 2017 As Adjusted | Change |
| Net earnings from continuing operations | \$ 616 | \$ 476 | 29.6 % | \$ 2,132 | \$ 1,820 | 17.1 % |
| + Provision for income taxes | 97 | 135 | (28.5) | 530 | 798 | (33.6) |
| + Net interest expense | 115 | 251 | (54.1) | 352 | 521 | (32.6) |
| EBIT ^(a) | \$ 828 | \$ 862 | (3.9)% | \$ 3,014 | \$ 3,139 | (4.0)% |
| + Total depreciation and amortization ^(b) | 592 | 642 | (7.8) | 1,826 | 1,809 | 1.0 |
| EBITDA ^(a) | \$ 1,420 | \$ 1,504 | (5.6)% | \$ 4,840 | \$ 4,948 | (2.2)% |

(a) Adoption of the new accounting standards resulted in a \$7 million and \$21 million decrease in EBIT and a \$2 million and \$4 million increase in EBITDA for the three and nine months ended October 28, 2017, respectively.

(b) Represents total depreciation and amortization, including amounts classified within Depreciation and Amortization and within Cost of Sales on our Consolidated Statements of Operations.

We have also disclosed after-tax ROIC, which is a ratio based on GAAP information. We believe this metric is useful in assessing the effectiveness of our capital allocation over time. Other companies may calculate ROIC differently, limiting the usefulness of the measure for comparisons with other companies.

After-Tax Return on
Invested Capital

Trailing Twelve
Months

| | |
|---|---------------------------------|
| November 3, 2018 (dollars in millions) | October 28, 2017 As Adjusted |
|---|---------------------------------|

| | |
|------------------|----------|
| Operating income | \$ 4,418 |
|------------------|----------|

| | |
|--------------------|----|
| + Net other income | 69 |
|--------------------|----|

| | |
|-------------|-------|
| / (expense) | 4,487 |
|-------------|-------|

| | |
|----------------------------|----|
| + Operating lease interest | 77 |
|----------------------------|----|

| | |
|----------------|-----------|
| - Income taxes | (d) 1,413 |
|----------------|-----------|

| | |
|----------------------------------|----------|
| Net operating profit after taxes | \$ 3,151 |
|----------------------------------|----------|

| Denominator (dollars in millions) | November 3, 2018 | October 28, 2017 As Adjusted | October 29, 2016 As Adjusted |
|--|---------------------|---------------------------------------|---------------------------------------|
| Current portion of long-term debt and other borrowings | \$ 1,535 | \$ 1,366 | \$ 739 |
| + Noncurrent portion of long-term debt | 10,104 | 11,090 | 11,939 |
| + Shareholders' equity | 11,080 | 11,092 | 11,030 |
| + Operating lease liabilities ^(e) | 2,208 | 2,041 | 1,925 |

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| | | | | | | |
|--|------|---|-----|-----------|-----------|-----------|
| - Cash and cash equivalents | | | | 825 | 2,725 | 1,231 |
| - Net assets of discontinued operations ^(f) | | | | — | 4 | 60 |
| Invested capital | | | | \$ 24,102 | \$ 22,860 | \$ 24,342 |
| Average invested capital ^(g) | | | | \$ 23,481 | \$ 23,601 | |
| After-tax return on invested capital ^(h) | 15.8 | % | (d) | 13.4 | % | |
| After-tax return on invested capital excluding discrete impacts of Tax Act | 13.9 | % | (d) | | | |

^(a) Consisted of 53 weeks.

Represents the add-back to operating income driven by the hypothetical interest expense we would incur if the property under our operating leases were owned or accounted for as finance leases. Calculated using the discount

^(b) rate for each lease and recorded as a component of rent expense within SG&A. Operating lease interest is added back to Operating Income in the ROIC calculation to control for differences in capital structure between us and our competitors.

^(c) Calculated using the effective tax rates for continuing operations, which were 12.3 percent and 31.0 percent for the trailing twelve months ended November 3, 2018, and October 28, 2017, respectively. For the trailing twelve months ended November 3, 2018, and October 28, 2017, includes tax effect of \$514 million and \$1,389 million, respectively, related to EBIT, and \$10 million and \$24 million, respectively, related to operating lease interest.

^(d) The effective tax rate for the trailing twelve months ended November 3, 2018, includes discrete tax benefits of \$382 million related to the Tax Act, and the impact of the new lower U.S. corporate income tax rate.

^(e) Total short-term and long-term operating lease liabilities included within Accrued and Other Current Liabilities and Noncurrent Operating Lease Liabilities on the Consolidated Statements of Financial Position.

^(f) Included in Other Assets and Liabilities on the Consolidated Statements of Financial Position.

^(g) Average based on the invested capital at the end of the current period and the invested capital at the end of the comparable prior period.

^(h) Adoption of the new lease standard reduced ROIC by approximately 0.5 percentage points for all periods presented.

Analysis of Financial Condition

Liquidity and Capital Resources

Our cash and cash equivalents balance was \$825 million at November 3, 2018, compared with \$2,725 million for the same period in 2017. Our investment policy is designed to preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place dollar limits on our investments in individual funds or instruments.

Capital Allocation

We follow a disciplined and balanced approach to capital allocation based on the following priorities, ranked in order of importance: first, we fully invest in opportunities to profitably grow our business, create sustainable long-term value, and maintain our current operations and assets; second, we maintain a competitive quarterly dividend and seek to grow it annually; and finally, we return any excess cash to shareholders by repurchasing shares within the limits of our credit rating goals.

Operating Cash Flows

Operating cash flow provided by continuing operations was \$3,614 million for the nine months ended November 3, 2018, compared with \$4,420 million for the same period in 2017. The operating cash flow decrease is primarily due to a larger increase in inventory, partially offset by an increase in accounts payable during the nine months ended November 3, 2018, compared to the same period last year.

Inventory

Inventory was \$12,393 million as of November 3, 2018, compared with \$8,597 million and \$10,517 million at February 3, 2018, and October 28, 2017, respectively. Inventory increased to support current and expected sales, including market share opportunities in toys and baby-related merchandise. In addition, inventory levels were impacted by the timing of receipts and our efforts to improve in-stock levels.

Dividends

We paid dividends totaling \$337 million (\$0.64 per share) and \$1,001 million (\$1.88 per share) for the three and nine months ended November 3, 2018, respectively, and \$339 million (\$0.62 per share) and \$1,001 million (\$1.82 per share) for the three and nine months ended October 28, 2017, respectively, a per share increase of 3.2 percent and 3.3 percent, respectively. We declared dividends totaling \$338 million (\$0.64 per share) in third quarter 2018, a per share increase of 3.2 percent over the \$341 million (\$0.62 per share) of declared dividends during the third quarter of 2017. We have paid dividends every quarter since our 1967 initial public offering, and it is our intent to continue to do so in the future.

Share Repurchase

We returned \$526 million and \$1,451 million to shareholders through share repurchase during the three and nine months ended November 3, 2018. See Part II, Item 2 of this Quarterly Report on Form 10-Q and Note 10 to the Consolidated Financial Statements for more information.

Financing

Our financing strategy is to ensure liquidity and access to capital markets, to maintain a balanced spectrum of debt maturities, and to manage our net exposure to floating interest rate volatility. Within these parameters, we seek to minimize our borrowing costs. Our ability to access the long-term debt and commercial paper markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. As of November 3, 2018, our credit ratings were as follows:

| Credit Ratings | Moody's | Standard and Poor's | Fitch |
|----------------------|---------|---------------------|-------|
| Long-term debt | A2 | A | A- |
| Commercial paper P-1 | | A-1 | F2 |

If our credit ratings were lowered, our ability to access the debt markets, our cost of funds, and other terms for new debt issuances could be adversely impacted. Each of the credit rating agencies reviews its rating periodically and there is no guarantee our current credit ratings will remain the same as described above.

We have additional liquidity through a committed \$2.5 billion revolving credit facility obtained through a group of banks. In October 2018, we extended this credit facility by one year to October 2023. No balances were outstanding at any time during 2018 or 2017.

Most of our long-term debt obligations contain covenants related to secured debt levels. In addition to a secured debt level covenant, our credit facility also contains a debt leverage covenant. We are, and expect to remain, in compliance with these covenants. Additionally, as of November 3, 2018, no notes or debentures contained provisions requiring acceleration of payment upon a credit rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a matter of months of each other we experience both (i) a change in control; and (ii) our long-term credit ratings are either reduced and the resulting rating is noninvestment grade, or our long-term credit ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is noninvestment grade.

We believe our sources of liquidity will continue to be adequate to maintain operations, finance anticipated expansion and strategic initiatives, fund debt maturities, pay dividends, and execute purchases under our share repurchase program for the foreseeable future. We continue to anticipate ample access to commercial paper and long-term financing.

Contractual Obligations and Commitments

As of the date of this report, other than changes related to adoption of the new lease accounting standard as described in Note 2 to the Consolidated Financial Statements, there were no material changes to our contractual obligations and commitments outside the ordinary course of business since February 3, 2018, as reported in our 2017 Form 10-K.

New Accounting Pronouncements

Refer to Note 2 to the Consolidated Financial Statements for a description of accounting standards adopted related to revenue recognition, leases, and pensions. We do not expect that any other recently issued accounting pronouncements will have a material effect on our financial statements.

Forward-Looking Statements

This report contains forward-looking statements, which are based on our current assumptions and expectations. These statements are typically accompanied by the words “expect,” “may,” “could,” “believe,” “would,” “might,” “anticipates,” or similar words. The principal forward-looking statements in this report include: our financial performance, statements regarding the adequacy of and costs associated with our sources of liquidity, the funding of debt maturities, the continued execution of our share repurchase program, our expected capital expenditures and new lease commitments, the impact of changes in the expected effective income tax rate on net income, including those resulting from the Tax Act, the expected compliance with debt covenants, the expected impact of new accounting pronouncements, our intentions regarding future dividends, the expected return on plan assets, the expected outcome of, and adequacy of our reserves for, claims, litigation and the resolution of tax matters, the expected impact of changes in information technology systems, and changes in our assumptions and expectations.

All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A of our Form 10-K for the fiscal year ended February 3, 2018, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Form 10-K for the fiscal year ended February 3, 2018.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

During the most recently completed fiscal quarter, the following change to our information technology systems materially affected, or is reasonably likely to materially affect, our internal control over financial reporting:

- We are in the process of a broad migration of many mainframe-based systems and middleware products to a modern platform, including systems supporting inventory and supply chain-related transactions.

During the most recently completed fiscal quarter, no other change in our internal control over financial reporting materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed,

summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No response is required under Item 103 of Regulation S-K, nor have there been any material developments for any previously reported legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 20, 2016, our Board of Directors authorized a new \$5 billion share repurchase program. We began repurchasing shares under this new authorization during the fourth quarter of 2016. There is no stated expiration for the share repurchase program. Under the program, we have repurchased 40.3 million shares of common stock through November 3, 2018, at an average price of \$67.99, for a total investment of \$2.7 billion, excluding the October 2018 ASR because the transaction was not fully settled as of November 3, 2018. The table below presents information with respect to Target common stock purchases made during the three months ended November 3, 2018, by Target or any "affiliated purchaser" of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs |
|--|----------------------------------|------------------------------|---|--|
| August 5, 2018 through September 1, 2018 | | | | |
| Open market and privately negotiated purchases | — | \$ — | — | \$ 2,259,843,537 |
| September 2, 2018 through October 6, 2018 | | | | |
| Open market and privately negotiated purchases | — | — | — | 2,259,843,537 |
| October 7, 2018 through November 3, 2018 | | | | |
| Open market and privately negotiated purchases | 1,492,038 | 84.38 | 1,492,038 | 2,133,949,841 |
| July 2018 ASR ^(a) | 168,875 | 83.88 | 168,875 | 2,258,949,841 |
| October 2018 ASR ^(b) | 3,500,000 | TBD | 3,500,000 | 1,808,949,841 |
| Total | 5,160,913 | TBD | 5,160,913 | \$ 1,808,949,841 |

^(a) Represents the incremental shares received upon final settlement of the ASR agreement initiated in second quarter 2018.

^(b) Refer to Note 10 of the Consolidated Financial Statements for further details about the ASR contract.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

- (3)A Amended and Restated Articles of Incorporation (as amended through June 9, 2010) ⁽¹⁾
- (3)B Bylaws (as amended through November 11, 2015) ⁽²⁾
- (10)II Second Extension Amendment dated August 6, 2018 to Five-Year Credit Agreement among Target Corporation, Bank of America, N.A. as Administrative Agent and the Banks listed therein
- (31)A Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31)B Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32)A Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (32)B Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed June 10, 2010.

(2) Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed November 12, 2015.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TARGET CORPORATION

Dated: November 27, 2018 By: /s/ Cathy R. Smith
Cathy R. Smith
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

/s/ Robert M. Harrison
Robert M. Harrison
Senior Vice President, Chief Accounting Officer
and Controller