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TGT.N - Q4 2020 Target Corp Earnings Call & 2021 Financial Community Meeting

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OVERVIEW:

Co. reported 2020 YoverY comparable sales growth of more than 19% and adjusted EPS of $9.42.

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PRESENTATION

John Hulbert - *Target Corporation - VP of IR*

Good morning, everyone. Thanks for attending our 2021 Financial Community Meeting. This morning, we're being joined by investors and others who are listening into this webcast. Following today's meeting, Michael and I will be available to answer any follow-up questions.

Before I turn it over to Brian to kick off the meeting, I have a couple of important disclosures. First, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings. And second, in today's remarks, we refer to non-GAAP financial measures, including adjusted earnings per share. Reconciliations of all non-GAAP measures to the most directly comparable GAAP measure are included in our financial press releases and SEC filings which are posted on our Investor Relations website. With that, let's begin the meeting.

(presentation)

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Good morning, and welcome to our 2021 Financial Community Meeting. We're eager to share our insights on the extraordinary year that just passed, as well as our vision for what's next. But I couldn't start today without reflecting on the fact that 1 year ago at this time, the pandemic was just beginning to unfold. And in an effort to keep everyone safe and limit travel, we decided to convert this meeting to a virtual format. While we miss hosting our in person gatherings, it's prudent to stick with virtual presentations once again this year. But we're looking forward to resuming our live events, including this one and our Annual Shareholders Meeting in 2022.

As I look back over the past year, a year when so much care and compassion was called for, I see purpose, coupled with capabilities as the essential enabler of our response. And the story of Target in 2020 is the story of a team that wanted nothing more than to take care of those around us, drawing on capabilities that were equal to that ambition after years of building an investment.

So I want to start today by publicly recognizing and thanking our team. I'm incredibly proud of the resilience, empathy, care and concern they've shown for each other, our guests and communities through a very challenging 12 months and counting. None of what we'll share today would've happened without them. Even before the dramatic challenges of last year took hold, our team had been busy building the retail platform of tomorrow. But 2020 accelerated everything and, as such, our guests are already benefiting from and loving that platform today. At the heart of the platform was the belief that consumers would continue to flock to our stores for multicategory one-stop shopping; a friendly, well-trained and knowledgeable team; and joyful experiences.

As we designed our strategy and invested accordingly, we relentlessly asked ourselves what products and services those stores should offer, where they should be located, how their operations should be tailored to meet neighborhood needs and ultimately, how to make our stores work together with all of our other assets as one shopping platform that would keep guests turning to Target however they want to shop. In answering those questions, we did 2 things at once: We placed the physical store more firmly at the center of our omnichannel platform and we created a durable, sustainable and scalable business model that puts Target on a road of our own.

Our goal was to use our proximity, nearly 1,900 stores within 10 miles of the vast majority of the U.S. consumers to offer the fastest and easiest digital fulfillment in retail. And the capabilities we built to become America's easiest place to shop also cracked the essential question of how to grow our digital sales exponentially, while maintaining the overall profitability of our business. When we began this journey, we didn't know we would be facing a global pandemic, mass quarantines, rapid unemployment and the need to limit the number of people in public spaces. And yet, when those threats emerged in 2020, we were ready. And without hesitation, millions of American families turned to Target like never before. That happened because of decisions we made 4 and 5 years ago. And today, Christina Hennington, our recently named Chief Growth Officer, along with John Mulligan and Michael Fiddelke, will join me in mapping out how our team's efforts in recent years created a new baseline from which we'll continue to climb higher for our guests.

And here's what I hope you'll take away from our story. First, that our team's ability to act and react in 2020 was years in the making. Without our multiyear roadmap to develop new capabilities and bring them to scale, 2020 could've exposed essential gaps in our business model. Instead, it proved beyond a doubt the durability of our model and it signaled our potential for continued growth in years ahead.

The second takeaway stems from a question I've heard frequently, especially in 2020, "Brian, what's the secret to Target's growth trajectory?" What you'll see in our presentation today is that the one thing that's driving our success is a focused commitment to several things: an integrated collection of strategies and capabilities that all work together, are very difficult to replicate and, ultimately, make Target unique.

I'll start today with a high level recap of our full year results. When we gathered virtually for this meeting last year, I shared how our revenue had grown by $5.4 billion since 2017, and that we were consistently gaining share in many of our core merchandising categories. In other words, we were already starting to see steady growth from our investments.

When we left that meeting, no one knew that COVID-19 would be declared a pandemic in the United States, only a couple of weeks later. In hindsight, it's hard to believe that we only receive one COVID-related question that day. But today, as we look back on 2020, the business highlights are clear: Our revenue during the year increased another $15 billion. We gained meaningful market share across all 5 of our merchandising categories, totaling about $9 billion. Our full year comparable sales were up more than 19%, with a store comp of more than 7% in a year when people were staying home to stay safe, and a digital comp of 145%. Standing at this meeting 3 or 4 years ago, it would have been hard for any of us, or any of you, to imagine digital penetration of 18% without a dramatic deterioration in our P&L. Yet today, we announced record high full year adjusted EPS of $9.42.

Importantly, we accomplished all of this while making huge incremental investments in our team's safety and well-being and completely re-outfitting our stores to keep our team and guests safe. Far for being a fluke, this performance is further proof that we've built a business model that is working as intended, one that puts Target in a category of its own.

A few consistent pillars have been and will continue to be at the heart of our playbook. The enormous investments we made in supply chain, store operations and technology capabilities are already powering exponential growth in digital commerce. They've enabled us to use our stores as showrooms and service centers, but also as hubs for digital fulfillment. Without these investments, we simply wouldn't have been able to satisfy the exploding guest demand for same-day services, represented by more than 600% growth in Drive Up.

Likewise, Shipt is an extraordinary capability that grew by more than 300% last year and will continue to grow as more guests recognize the power of having their purchases brought to their doorstep in as little as 1 hour. We have consistently invested in our merchandising strength, like our differentiated owned brand portfolio, our curated national brands, inspired limited time offering and strategic relationships that run the gamut from web only start-ups looking for omnichannel scale to premier partners like Disney, Apple, Levi's and Ulta Beauty.

We're continuously improving our physical and digital shopping experience, investing billions in store remodels, specialized store roles and service training for our teams, while continuing to open up new small formats in urban centers, major college campuses and iconic tourist destinations. Most importantly, we're continuing to invest in our team. Even before 2020's outsized incremental expenditures on team health and safety, Target was an employer of choice, an academy company for those looking for rewarding and purposeful careers. In addition to accelerating our $15 starting wage in 2020, we celebrated our team's exceptional efforts with 5 separate recognition bonuses, most recently in January when we invested another $200 million to reward each of our frontline team members $500.

As we develop capabilities, like Target Circle, or acquire them, like Shipt, we do so with a clear vision for how they'll work together in service to our guests. Ultimately, the value they create in our core business has to contribute to our retail offering that's greater than the sum of the parts. But when we look at these elements individually, it's strikingly clear how much value we've added in a very short time. In 2016, our digital transformation was only beginning, we weren't even a top 10 e-commerce provider, and we were just getting our same-day services off the ground. Today, we have the most complete suite of same-day fulfillment services in the industry. We're one of the leading e-commerce players. And for Click and Collect same-day services, we continue to deliver industry-leading growth and dollar volume as well as Net Promoter Scores over 80% despite record demand.

In 2016, we had about 30 small format stores. Today, we have 140 and we'll add another 30 to 40 per year over the next several years. If these stores were a standalone chain, their revenue would rival that of fast-growing chains with many more locations. In 2016, we launched Pillowfort and Cat & Jack, touching off an owned brand reinvention that has since resulted in more than 30 new brands, with more on the way this year. By the time we gathered for this meeting last year, Cat & Jack and 5 other owned brands were generating $1 billion or more apiece in annual sales, and that tally has continued to grow.

We cleared 2020 with 10 of our owned brands each generating $1 billion or more and 4 of those across the $2 billion per year threshold. Any one of these brands alone would be a sizable retailer and, as you know, their contribution to profits is outsized. Of course, owned and exclusive brands are just one component of our merchandising strategy, which has always drawn on curated national brands across our assortment.

As we've expanded capabilities in recent years, we've also steadily built our roster of strategic partners. Levi's is an excellent example of how we can build upon a longstanding collaboration and help strategic partners catapult into new product categories. We started partnering with Levi's years ago on the DENIZEN denim brand and that partnership grew to include Levi's Red Tab apparel and a build-out presence in hundreds of stores and on Target.com. Just this last Sunday, we launched the Levi's for Target collection, a limited time offering of home goods. This is the first foray by Levi's into this category and it's a great example of combining their strengths with ours, including our incredible sourcing and product design and development capabilities to forge new potential for both of our brands.

Meanwhile, our team is also gearing up to introduce Ulta Beauty at Target to our stores and Target.com, starting with the first 100 stores later this year. From this initial batch, we'll test, we'll learn and we'll expand hundreds of additional locations over time. This partnership combines Ulta Beauty's unparalleled assortment, category expertise and guest loyalty with our large high-growth traffic-driving beauty business and the ease and convenience of our fulfillment services. Together, we'll be able to offer guests access to established, emerging and prestige beauty brands as well as expert beauty consultation in an industry leading omnichannel retail experience.

As a standalone or isolated innovation, each of these elements I mentioned, has something in common with the other. Each was advanced based on how it would complement our other assets and capabilities and we tested each one with an eye towards scale. In fact, the ability to integrate and scale is a key component of our decision making. And to emphasize the critical importance of scalability, I simply think back to what we could've done in 2016 but didn't. At that time, conventional wisdom held that the only way forward was for retailers to build capacity, to send more packages to homes. Instead, we went our own way, built a fulfillment model with our guests' local store at the center and took the initiative on same-day. We could just as easily have constructed additional fulfillment centers and driven the shift to digital sales with more ship-to-home capacity. But as you know, the economics were terrible and we wouldn't have been differentiated.

In short, we didn't see the textbook solution as scalable or as likely to do what we've done, namely set the groundwork for years of guest satisfaction and brand loyalty, as represented by comments like this, "Thank you for providing curbside pickup. It actually was the determining factor in me buying from Target instead of one of those online retailers." Or this [see quote on slide 68], or this [see additional quote on slide 69] or this note from a guest who simply said, "Please always continue to do curbside pick up. It is such a help even outside of COVID. This is a wonderful service and I'll continue to choose Target for this very reason."

So where do we go from here? And how do we keep climbing from this strong new baseline? In the near term, we'll continue to generate incredible value by executing on our strategy. Throughout the pandemic, we've built deep trust and loyalty with our guests who clearly prefer the ease and everyday inspiration of shopping at Target, along with our relentless commitment to the safety and cleanliness of our shopping environment. This is a decades long commitment that was only emphasized by the pandemic, and it will continue to be a differentiator in the months and years ahead.

Our multi-category merchandise portfolio is a huge advantage, particularly as shoppers continue to consolidate trips. And we're absolutely committed to delivering value and everyday affordability, which is important in any environment, but particularly as the economic consequences of COVID continue to play out. At the same time, we'll continue to listen closely to our stakeholders and to build upon our strategy. So in the years ahead, you'll see continuous iteration and improvement in the pillars I've mentioned already. But we'll also focus on better localizing our experience, applying learnings from our small format expansion. And we'll continue to build scale and personalizing the experience, leveraging capabilities like Target Circle to better understand our guests and find new ways to engage and reward the 90 million members who have joined so far.

To ensure we're continuously delivering great value and emphasizing everyday affordability, we'll stay laser focused on being priced right daily, and on showcasing our value with clear messaging and relevant promotions. Importantly, we'll also double down on an approach to sustainability that builds on our rich legacy and company purpose. This includes decades of community relations, corporate responsibility and philanthropic leadership grounded in our 75-year track record of giving 5% of pre-tax profits in the support of vibrant and inclusive communities.

Our intent is to further use our size and scale to benefit people and the planet, building on the work we've done already to elevate our offering of sustainable brands, to create equity and opportunity in our communities and to help protect the environment. High stakeholder expectations for corporate responsibility only increased in the pandemic and the 2020 demonstrations for social justice. And as we've seen for years, sustainability builds resiliency in our operating model and fuels growth and innovation. So this is work that's important, not just to our guests, our team members, our investors and our communities but to ensuring our business model remains durable for years to come.

The best predictor of whether we can follow through on our aspiration is a track record of taking care of our team, serving our guests and communities and responsibly growing our business. And to give you a more detailed picture of how we'll continue to do that in the years ahead, I'll ask Christina, John and Michael to weigh in. Christina?

Christina Hennington - *Target Corporation - Executive VP & CGO*

Thanks, Brian. It's great to be joining all of you today, and I'm really excited to discuss how our teams have differentiated Target in the marketplace and some of the potential we see in front of us. Now I should mention upfront that I joined Target back in 2003. Since then, I've held a number of roles across merchandising. Over that time, I've seen a lot in our business, ups and downs, good years and rebuilding years, economic booms and a great recession. But I've never seen anything like last year. Of course, COVID-19 is an unprecedented event, challenging our team and our guests in ways we never could have imagined. But how we responded at Target, empowering our teams, moving quickly and leveraging the power of our multi-category assortment, that's Target at its best. In fact, that's Target better than I've ever seen us.

So when I think about my new role in bringing together insight, strategy and innovation, plus planning, design, sourcing and buying functions, it's not about fixing anything, it's about improving on what worked so well last year. It's about keeping Target relevant by staying ahead of what our guests need and it's about positioning Target to drive growth in 2021 and for years to come. We were successful last year because we gave our guests a lot of reasons to be confident in shopping at Target. The work of our frontline teams to keep our stores safe and clean has made Target a destination, a happy place as our guests limit other trips out of their homes.

Our suite of same-day fulfillment options was a game changer, driving triple-digit growth in our digital sales. And regardless of whether our guests were strolling our aisles or scrolling on our app, we struck that balance between replenishment and discovery. Through the breadth of our assortment, along with a single view of inventory and teams leading across all channels, we were able to move with speed and agility, meeting guest needs despite the fastest changing environment we've ever faced.

A lot of you probably saw this last spring in observing our business or in your own lives. In the space of just a few weeks at the outbreak of the pandemic, guests stocked up on food, beverages and essentials. Then they turned to us for help in converting kitchen tables into classroom space and spare bedrooms into home offices. And then they looked to Target for fitness gear, games and other entertainment as they settled in for the long haul. That kind of volatility continued throughout 2020. In fact, one of the only constants last year was that no matter what happened, our guests turned to Target for help to meet functional needs to get through the pandemic and for inspiration and joy, especially around those key seasonal moments that took on added importance for so many people last year.

So we never looked at our business from the perspective of a particular category. Instead, we shaped our business decisions around what was happening in the world. That's something that will continue to guide us. Because when we focus on what's happening in the lives of our guests, it's obvious what categories we need to flex to keep building on the trust they've placed in Target. Our multi-category assortment is a competitive advantage because it keeps Target relevant no matter what. But how we manage that assortment, the premium we place on curation, partnerships and product design and development, that's what differentiates Target.

Brian touched briefly on our billion and multibillion-dollar owned brands. Our owned brand portfolio, which spans all categories, is vital to the success of our business. It represents about 1/3 of our total sales and even more of our gross margin, which helps to sustain key enterprise investments. And Target's owned brands continue to generate strong growth because of our approach to creating, designing and maintaining these brands. They're not just private labels, they're brands our guests trust, they're brands our guests love.

A great example of this is in the athleisure space. Even before athleisure became work-from-home apparel, this was a hot category, and it was an area where we had room to raise our game. So early in 2020, we launched All in Motion. And last month, it became a $1 billion brand. That didn't happen by chance. We were able to respond to this trend quickly and build a beloved brand because we invested in co-creating this brand with our guests. Our team talked to 15,000 people, we consulted with 65 fitness pros and we had team members attend dozens of workout classes with our guests. That's the kind of work we put into owned brands across our assortment in every category. So whether it's sweating through a spin class or talking to parents and kids about how Cat & Jack can meet their needs or taste testing every recipe in our Good & Gather assortment before we launch, we go the extra mile, resulting in brands our guests don't just buy because we offer them at a good price, but instead, brands they love, brands that are the reason why they're shopping at Target in the first place.

And that work continues. This year, we'll announce and launch several new owned brands in areas where we know Target can make a difference for our guests. This focus on making Target irresistible through our products and our experience also applies to how we work with our national brand partners. And it's an approach that has made Target a place where national brands thrive. You've heard about Levi's, including the limited time Home Collection that just set and the Ulta Beauty at Target shops we're adding to our stores and Target.com this year. Those are great examples of what Target represents for our partners. Levi's is an iconic brand that, for a long time, had thrived largely in department store environments. But as they began exploring new platforms, they turned to Target. And Ulta Beauty is an incredible leader in specialty beauty. Through our new partnership, we'll provide access to brands we know our guests love, but previously had to go elsewhere to get.

This kind of work is a big part of what makes Target special, and we're not stopping there. Just last week, in fact, we began rolling out a dedicated Apple experience, starting in 17 stores across the country and online. We're doubling the Apple footprint in these stores with new lighting fixtures and displays for Apple products, including an extended assortment of accessories. We have a new dedicated Apple landing page on our digital channels and we'll offer our guests more expertise with Apple trained team members in these stores and enhanced product videos on our app and website. This is really exciting because we're taking the work we've done with Apple over the last 15 years and making it even better.

Finally, I want to touch on a body of work that's incredibly important. The efforts underway to make Target more relevant and more welcoming for black guests. Over the last few years, we've listened carefully to our multicultural guests as a whole, and we recognized there was an opportunity to do more for black guests. So we've added more brands and products that we know they love. A great example is what we've done in the beauty space with 50 black-owned and black-founded brands now available in our industry-leading assortment. But we're committed to doing even more in key categories through our owned brands and partnerships, building on our progress to ensure that we're delivering on our purpose of helping all families discover the joy of everyday life.

The retail landscape is never static. So the retailers that will win are the ones that have a durable business model, something we've built at Target. But just as important, the retailers that will be best positioned for the future are the ones with the closest connection to their customers and the ability to flex to meet their changing needs. That was critical to Target's success last year. And that obsession with listening to our guests, understanding the things that are shaping their world and meeting their needs for convenience and ease, inspiration and discovery across all channels is what has Target poised for continued growth in the years ahead.

Thank you. And now I'll hand the meeting over to John.

John J. Mulligan - *Target Corporation - Executive VP & COO*

Thanks, Christina, and good morning, everyone. While most people expect the operations guy to get right into the technical stuff, like capacity, throughput and automation, and don't worry, I will get there, I'm going to start with our people, the Target team. In a year when the flexibility and scalability of our operation was pressure tested, our team rose to the challenge, just like they always do. They were the connection between processes, technology and physical assets, that allow us to deliver safety, ease, reliability and even a bit of joy during a year of uncertainty for our guests. Of course, the team wasn't starting from scratch. As you heard already this morning, we've been investing in them for years and building capabilities that would set them up to better serve our guests in any time, let alone a global pandemic.

Let me take you back for a minute to one of our favorite reference points. It was early 2016 and Target's strategy was coming into focus. After years of testing and listening to our guests, we knew that betting on our stores, an uncommon proposition at the time, would be at the heart of a durable and scalable model. And we needed an operation with the right capabilities to drive it. Getting there wouldn't be fast or easy. Quarter-after-quarter, we tested, iterated and learned how to modernize our supply chain, update our stores, use them as fulfillment hubs and train our team to bring every part to life. Then we had to learn how to do it at scale.

In 2019, all these efforts started operating together, and we saw tangible proof through financial results, market share gains and guest satisfaction scores that our work was paying off. Fast forward to 2020, we were ready for the world to change. But only because of the years we'd spent laying the operational foundation. The story of how we navigated the twists and turns of 2020 starts with replenishment because the whole operation relies on getting the right product to the right place at the right time. This last quarter, 95% of all sales, online and in person were fulfilled by our stores, which is why it's critical they have enough of the inventory our guests want to buy. Without that piece, the operation simply stops. When the pandemic hit last spring, our guests' shopping behaviors changed nearly overnight. We saw heavy stock up trips, huge in-store surges and then a quick shift to online shopping. To meet the needs of the guests, our supply chain had to turn on a dime.

We sent hundreds more deliveries than we planned every day to replenish stores fast and often. Flexibility we'd learned from opening dozens of small format stores. We prioritized the flow of essential inventory like paper towels and cleaning wipes, to quickly send stores more of what they needed, not just what was planned. As we sold every paper product we had last March, we expedited everything we could from our vendor partners and secured greater allocations of additional inventory as they ramped up to produce more.

In a normal year, we'd have spent months preparing for the traditional Q4 shopping spike. But in 2020, our peak season started in March. And after months of moving record volume, we had become increasingly efficient in how we managed high levels of demand. So when the holidays actually did arrive, we leaned into what was already working. We sent more inventory to stores than ever to prepare for an earlier holiday rush. We front-loaded those deliveries with the seasonal merchandise guests would expect so our stores would be stocked and ready, and we continued prioritizing essential products, like cleaning supplies and health care items, so we could keep meeting the pressing needs of our guests.

The flexibility of our supply chain set up our stores to play an essential role in our communities. Because we could restock shelves quickly, guests could count on Target for what they needed, whether they came inside or shopped online. And when our digital business picked up last spring, our fulfillment operation went into high gear. Up to that point, our same-day fulfillment services had already been rolled out nationwide. Millions of guests were loving them because they're fast and easy. We always love them because they're incredibly efficient. Without the shipping expense, these orders look much more like a store sale than a traditional online transaction, costing on average 90% less than if we'd shipped it from a warehouse. And at the start of 2020, our same-day sales were growing at a healthy clip. Come spring, when consumers saw the need for more contactless ways to shop, those services exploded. And we had the infrastructure in place to grow alongside demand.

Brian gave you the full year highlights on Drive Up, up more than 600%, and even Order Pick Up, which has been around for years, still grew more than 70%. Beyond our pickup options, the delivery capability we have in Shipt became even more important. It filled the need for guests who wanted an online order, especially for perishable items, but also for so many other essentials across Target, brought right to their front doors. It offered more personalization, reliability and speed than they could get from a packaged shipment. And as a result Shipt's target sales grew more than 300%. Of course, we continue to ship online orders from the back of our local stores, saving 40% of the cost of shipping from a warehouse, an economic advantage for us as digital sales now account for even more of our total revenue.

With third-party carriers fielding historic levels of volume, we worked closely with our partners to plan for capacity constraints and send millions and millions of packages to guests' doorsteps. But the popularity of our same-day services gave guests another option to shop from home, yet receive their orders faster, reliably and on their own time. Guests had Shipt deliver when it matched their schedule instead of guessing when a shipment would arrive. They drove through our pickup lanes when they were already out and about. No appointment required. This gave guests a flexibility they couldn't find anywhere else. The extraordinary growth of those services has shown just how much guests value that convenience, speed and peace of mind and the comfort they find in having a contactless option.

In fact, we found that what we built to make Target the easiest place to shop had also set us up to be one of the safest. I've said countless times that a benefit of using our stores as hubs is our ability to ramp-up in peak times and ramp back down based on demand. This last year, the stores ramped up and stayed there. In early spring, our stores were fulfilling more in a single day than they had in an entire week the year before, day after day after day. At the same time, they were also continuing to support a safe and easy in-store experience, which also drove strong comps. As our digital business continued to pick up steam, our stores sustained that pace for months on end. Records were set and then broken again and again and again.

But the years we spent building a rock-solid fulfillment capability in our stores prepared us to handle waves of volume without sacrificing the guest experience. Stores knew how to staff for peaks, train other store team members to pitch in when things got busy and adjust storage space to hold more orders. Despite wild growth, our Net Promoter Scores that represent guest satisfaction stayed incredibly high. It's one thing for our teams to adjust to record volume, but it's even more impressive to do it while we enhance the services themselves. As digital demand surged, we simultaneously broadened the assortment to make even more of the store available for same-day fulfillment. We added apparel to Shipt's delivery offerings and tested adult beverage pickup in a handful of markets. Most notably, we added fresh and frozen grocery to Drive Up and Order Pick Up. Although this expansion was already in the plan, we accelerated the rollout to go nationwide this summer, offering even more guests essential groceries through our contactless services.

Importantly, we also adjusted the process to make our services even safer and more efficient. With Drive Up and Order Pick Up, guests now display a PIN on their phones from a distance or through a car window so teams can securely deliver the right order while staying farther apart. We gave additional store team members back up training in fulfillment. For example, when we temporarily closed our Starbucks cafés, we taught hundreds of baristas how to efficiently pick and pack an order. That allowed us to keep those team members on the schedule and build their skills, while also helping us manage high volumes during peak times. And we added thousands of Drive Up parking spots, so guests could get in and out even faster.

At the same time, Shipt more than doubled its shopper network to increase the number of delivery windows it could offer to keep up with soaring demand. It's worth taking a minute to emphasize that using our stores to support digital demand is only possible because of trust and collaboration across many teams at Target. It's not just a stores operation or a supply chain effort, it's the product of many teams strategizing around a common purpose to deliver for our guests. That one team mindset is what built the capabilities we have today and is what allowed us to adjust swiftly when the business accelerated unexpectedly.

We built an operation to handle the healthy digital growth we expected through the middle of this decade. The only surprise was that we got there last year much sooner than planned. Although we designed for that kind of flexibility and scale in the long run, our team hadn't planned for it to come all at once, and that's what makes their outstanding execution with no advanced warning, all the more remarkable. Advancing the business several years in a matter of months proves that our model is scalable and also prove we have the capacity to grow.

I'd remind you of what I've shared in several of our past earnings calls. A reliable way to assess our stores throughput capacity is to look at the sales we do per square foot. And you can see that productivity has grown a lot over the last couple of years for our average stores, but also for our top quartile. The fact that we continue to see more throughput in our highest-performing stores shows the capacity we have across the rest of the chain for even more growth in the future.

With all the expectations we have for our stores, the physical buildings themselves play a huge role in our strategy. We're as committed as ever to our years long initiative to remodel stores with an inspirational specialty store feel that makes shopping easy and convenient. At the beginning of last year, we'd started about 130 full store remodels. In mid-March, to reduce distractions in our stores, we decided to complete the projects we'd started. Then we pivoted to more targeted improvements that emphasize safety, like installing plexiglass dividers and reformatting our sales floor for greater distancing.

The timing for our small-format stores also shifted. After pausing construction in the spring, our teams accelerated the work through the summer and fall to finalize more than 2 dozen stores for new local guests. Despite stopping the work for part of the year, we still opened 29 small format stores, the most completed in 1 year-to-date. From the Las Vegas Strip to UC San Diego, our first store right on campus property, we tapped into new communities. And we continued expanding across markets like New York and L.A. With each one, Target brought a safe and essential shopping experience to even more guests, while positioning us to serve those neighborhoods for years to come.

Our construction and store design teams also adjusted following the demonstrations for racial justice this summer. One of our Minneapolis stores required an entire rebuild. Without it, the local community had nowhere nearby to get essentials like baby formula and fresh food. So we partnered with local nonprofits to distribute needed supplies while putting plans in motion to reopen fast. We leaned on the expertise we developed remodeling stores and opening small formats to meet the community's needs. We listened to nearby residents, worked with local contractors, personalized the in-store experience and reopened months later as a convenient shopping destination, but also as a better partner to the neighborhood. Take a look.

(presentation)

John J. Mulligan - *Target Corporation - Executive VP & COO*

From that video alone, it's clear that our team is dedicated, tireless and incredibly compassionate when it comes to serving our communities. You saw it in the opening video and you've heard it throughout this morning. Our team is the heartbeat of Target. And even when faced with challenges, they bring their A game.

Several years ago, we implemented a new operating model in our stores to lift up that drive. It was a shift towards specialized roles to give our teams expertise, empowerment and a sense of ownership in how they serve our guests. With that model in place, our team could quickly adapt to the ups and downs in 2020, execute well and play an essential role in our communities. Now like anything in life, balance is good, and we found opportunities to train our specialists in other areas like teaching a hardlines expert how to fulfill an online order. So they gain skills beyond their specialized position. Those investments in their development also add flexibility to our operation.

We've always known that supporting our team would have great returns and it has. In addition to the bonuses, time off options, wellbeing benefits and expanded nationwide starting wage that Brian mentioned, we also gave our team even more hours. With a greater investment in our trained and expert workforce, we saw turnover drop and guest satisfaction rise. It's a strong testament to what can be done when we empower our teams to use their skills and passions to serve our guests. The bottom line is that as our business grew exponentially, our operation flexed alongside it. And as we delivered for our guests, we built on the trust they put in us to meet their needs and make it easy.

Going forward, we're taking the capabilities that drove Target in 2020 and accelerating them to continue making Target, the safest and easiest place to shop. As we do, we'll invest in more capacity and greater efficiencies. So we're positioned to continue growing for the long term.

In our supply chain, that starts with expanding our network so we continue to have replenishment capacity that can support our future growth. In recent years, we accommodated steady sales growth through our existing supply chain network by increasing the productivity of our buildings. In fact, the average sales per foot supported by our distribution centers rose nearly 30% between 2016 and 2020, thanks to a series of process and technology improvements. During those years, we didn't open any new DCs to support replenishment. But after our business grew nearly 20% last year, with 95% of sales driven by our stores, it's time to expand our supply chain so we can support a much higher base of sales and continue growing.

This year, we'll open 2 distribution centers to support replenishment, 1 close to the New Jersey/Delaware state line and another in the Little Village neighborhood of Chicago. And we currently have plans for one on each coast in 2022. We're also continuing to simplify the unload process once product reaches the stores. In a nutshell, it all comes down to how we sort and organize millions of items before they arrive at the stores' loading dock.

We've shown you the robotics capabilities we're building to help us sort inventory to the precise amount a store needs and organize it by store aisle. When we do, replenishment in stores is fast. Team members grab a tote, walk to the aisle and stock the shelf. No sorting in the back room or finding places to stash cases of excess product. We have 2 solutions that help us do that. We showed you both of these independently last year: 1 called auto-rebin sorts individual items. This is most useful for slower moving inventory, when stores only need a handful of items to put back on the shelf. Auto-rebin started in one of our local Minnesota warehouses, rolled out to 2 more and we'll expand to another 2 this year.

The second is the robotic ship sorter we've been building at our Perth Amboy facility. This sorts everything, from boxes of individual items to entire cases of product. After the sort, robots sequence inventory so our team can load pallets in an order that saves stores even more time. Individually, these capabilities are hugely valuable, but they're designed to work together. This spring, we'll put both solutions in 1 warehouse to test how they bring more precision and speed to store replenishment. In Q4, we'll run them together at a small scale, doing what we always do to learn and iterate before we go bigger. Opening new warehouses and expanding our robotics capabilities are both about moving product more easily to stores.

But just as important is being ready to send what stores need before they even know it. This year, we'll continue expanding the rollout of our predictive inventory positioning capability across our assortment. This helps us more precisely order and position product close to where we anticipate guests will want it so we can react quickly when there's demand. In turn, it improves out of stocks and lowers backroom inventory levels. In 2020, when sales spiked, this capability allowed us to order and restock products 25% faster than using our old systems. This year, we'll use it to order and position even more items in our assortment, so we can replenish the majority of the store faster for our guests.

We've talked about how store replenishment feeds store fulfillment. This past year, our team was able to keep filling online orders because our supply chain was replenishing that inventory with speed and precision. While we continue refining our replenishment operation, we'll also build on our fulfillment capabilities to enhance the guest experience and make way for future growth. Today, the majority of our store assortment is available through our same-day services, but we're continually working to give guests even more choices. In coming months, we'll expand our pickup options further into categories like apparel and fresh food and roll adult beverage pickup to 800 more stores.

We're also continuing to improve the Target Run so it's even easier for our guests and faster for our team. For example, Drive Up guests will be able to share more preferences in the app, like telling the team where to place the order in their vehicle or assigning an alternate pickup person so it's easier for a spouse or family member to pick it up. We're numbering our Drive Up spaces so our teams can find guests sooner for those times when a guest pulls up in a black SUV next to 8 other black SUVs. And we're updating the team member app, so they can more easily see what orders are in progress and where they can help.

Our same-day services have grown faster than any other fulfillment method. But when we do ship online orders, we'll continue sending the majority of those packages out the back of our stores. Since 2016, we scaled our ship-from-store capability from a low tech test in a few hundred stores to a sophisticated fulfillment operation in most Target backrooms. Now before anyone gets too worked up, I don't mean we have robots hiding in the back. Instead, we've got efficient tools, technology and process design working together, continually increasing the number of orders a store can fulfill.

Next, we'll take it a step further, developing last mile capabilities that help us continue scaling this operation so we can ship more orders from stores on even lower cost. To do it, we're testing a new type of facility here in Minneapolis called a sortation center. The idea is to make our stores as hub model even more efficient, while also reducing our load on external carriers. Take a look.

(presentation)

John J. Mulligan - *Target Corporation - Executive VP & COO*

This capability frees up time and space in our stores, which we can redirect into fulfilling more orders. In the end, it allows us to get orders to guests faster and at a lower cost. While we're still ramping up production at this first test facility, we're very confident in this concept and plan to open 5 additional sites in other urban markets later this year.

In 2021, we'll also open more stores, accelerating our growth with 30 to 40 new locations a year, a pace we'll keep up for the foreseeable future. With our small format strategy, we'll expand in urban markets like Portland, L.A. and New York City, where there are still opportunities to serve new guests. And we'll continue our focus on college stores with the University of Georgia and the University of Michigan planned for later this year. We remain extremely bullish on our college sites. Even as the pandemic sent students to online classrooms and sales softened at many of those stores, we see them as a long-term play to serve the college guests, many of whom are on the brink of adulthood and building lifelong shopping habits.

We'll also open a number of midsized stores to serve dense suburban neighborhoods from Denver to Brooklyn. As hundreds of retail vacancies have left holes in communities across the country, we've committed to sites where we can fill a need for the local guests. And as retail real estate prices have declined this year, we found these opportunities to serve new communities to be even more affordable. Along with opening new stores, we'll get back to remodeling our existing fleet. After stopping our full store remodels last spring, we'll pick back up later this year and complete about 150 stores in time for holiday, and we'll plan to ramp up to more than 200 stores a year in 2022 and beyond.

Safety and ease have become the heart of Target's shopping experience, and we'll incorporate what we learned during 2020 into our future store design. That includes implementing more contactless features, from our restrooms to our checkouts and adding distance between merchandise and at the check lanes. And as you heard from Christina, we'll also bring brand partnerships to life in our stores throughout 2021. A great example is the work we'll do to add Ulta Beauty to our sales floor, creating a specialty environment that's seamlessly integrated into the Target experience. Similarly, we'll use store design elements to highlight additional brands like Disney and Apple for our guests.

We're investing in a lot of really exciting developments to fuel Target's growth. But what do they all have in common? They're giving our team the tools or the backdrop to take better care of our guests and each other. That shows up most in our stores where the vast majority of our 350,000 team members bring our brand to life for guests across the country. A huge priority for our stores this year is adjusting our staffing strategies to create more predictability for our team. That's a challenge in any retail job, where ours are based on dynamic factors like consumer shopping patterns and changing team needs. But we know having an engaged team with more consistent hours leads to higher productivity, greater efficiency and lower turnover. It creates a place where people join to learn a job and stay to build a career and better serve our guests in the long run. So we'll train team members to take on other roles across the store and offer the option for longer shifts.

We'll also build on our stores' operating model by introducing a new standard of service to our teams. It's not a checklist, but a set of principles that define great service, like welcoming a guest and paying attention to what they need, which might be as simple as finding an item or as big as building an outfit. It's meant to give our team flexibility and empower them to do what's right for the guests in the moment. Without our team, everything else you heard today comes to a standstill. The Target team continues to be the most important part of our operation, and I want to say an enormous thank you to all our team members for all they do to serve our guests and our communities.

You've seen us make a lot of operational investments over the last few years, in our team, in our stores and in our capacity for long-term growth. In the most recent quarter, those returns were clear. We've created an operation unlike anyone else with our physical assets working together, centered on our stores and fueled by our team to serve our guests and grow for the long term. The capabilities we built not only allowed us to navigate the most volatile time in retail history but show that they can flex and grow to serve the ever-changing needs of the consumer. The work isn't done. We're constantly refining an operation that is efficient, fast and supportive of Target's durable and scalable business model. From an engineer by training and a finance guy at heart, I can attest that you can't get too efficient or relevant enough. There's no finish line for continuous improvement and innovation. We'll keep making bets on the capabilities that give us the flexibility to serve guests well into the future.

We have a lot of strength heading into 2021 and a lot of work still in front of us. But with a sound operational foundation and the talent and resilience of the Target team driving us ahead, I look forward to sharing our progress in the quarters and years to come.

With that, Michael, I'll hand it over to you.

(presentation)

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

All I can say is wow. Those news clips paint a vivid picture of the roller coaster our team and our business experienced throughout 2020. All in all, it was a standout year in which everything we've spent years developing and building came together to serve our guests like never before.

So today, after a year of record growth, I want to start my remarks by expanding on a point Brian mentioned earlier because investors often want to know, how much of Target's growth is being driven by specific strategies or specific assets. For example, they want to know if we can isolate how much of our growth is coming from Drive Up, from digital in total, our owned brand work, remodel program and any other way we can slice and dice the data. And I understand the impulse. Our internal team often wants to do the same thing. And of course, as a self described data geek, I'm inclined to think the same way.

But then I see data like we first shared with you last year. Guests who try Drive Up for the first time spend about 30% more on average compared with before, including an increase in conventional store shopping. And we see a similar change in behavior among guests who try Shipt for the first time. These findings demonstrate that the benefits of Drive Up and Shipt go far beyond the value of an individual trip. They're both capabilities that drive guest affinity, creating value that extends well beyond the services themselves.

That same thinking applies to our merchandise categories. If you focus only on the amount of sales or growth by category, you can miss how they all work together to drive guest affinity. I see how this plays out with my own family. Over the next few months, the cold weather in Minnesota will finally end, and my kids will need warm weather clothes. On the next Saturday morning Target run, we'll shop for those clothes, and we'll also pick up some food, a few office supplies, laundry detergent and maybe a prescription from CVS. We might wander over and purchase some spring decor. And we'll probably need some more earbuds since the kids seem to be inventing new ways to lose or destroy them. And on our way out, we'll probably stop at the Starbucks near the entrance so my wife and I can enjoy a coffee on the way home.

So now if you're going to analyze that basket, is there a way to know which category drove the trip? And beyond the basket itself, shouldn't we broaden the analysis even further since that trip depended on a conveniently located store that's clean, safe and fun to shop, featuring low everyday prices and a friendly and engaged team?

Over time, I've come to understand that guest engagement and financial performance are driven by everything we're doing at the same time, not any factor in isolation. Among the critical factors, of course, there are the tangible assets that show up on our balance sheet, including our stores, distribution centers and technology, but the list goes way beyond the balance sheet and includes our team, our reputation and the trust we've established with multiple stakeholders, which only deepened in 2020. Then there's the Target brand itself. Our owned and exclusive brands, capabilities like marketing, merchandising, product design and development, sourcing and so much more. And of course, there's our culture, our mission and our values, which helped to unify a diverse and widely dispersed team in support of a common purpose.

So what's the key to our future performance? It's our continued investments in the assets and capabilities, both tangible and intangible, that we can build and integrate to drive guest engagement and growth. And how should we determine what to focus on? The answer comes from continually listening carefully to our guests. The better we know them, the more effectively we can invest in what they want and develop new ways to deliver joy and inspiration while making their lives easier. If we invest the right way, guests will reward us with more engagement and growth, which in turn will create additional opportunities to invest.

Our success in 2020, which was years in the making, is a perfect example. It started many years ago as we engaged in a comprehensive evaluation of our business, our strategy and took a deep dive into the wants and needs of our guests. That work led to a new strategic focus, followed by years of investment of both capital and expense to roll out new fulfillment capabilities, rejuvenated stores and brands, a modern store operating model and more. Through that work, we built the foundation that allowed our team to deliver unprecedented results in the face of a rapidly changing landscape in 2020.

So this year, our focus is to lock in last year's gains, build on that foundation, continue to deepen guest engagement and drive long-term growth. And following last year's growth of $15 billion, more than we grew over the prior 11 years combined, we're entering 2021 as a much larger company with a host of opportunities to build on last year's success.

Digital is one of those opportunities. As John mentioned, in 2020, the penetration of digital sales advanced many years in a single year. With COVID as the catalyst, guests who had never tried our digital services quickly changed their habits and tried them sooner than they would have otherwise. We've long told you that, on average, a multichannel guest spends nearly 4x as much as a store-only guest and nearly 10x more than a digital-only guest. Now just in case there are any stats majors listening, that's a statement about correlation, not causation. So I'm not saying that a guest's spending immediately changes that much after they move into a new channel.

Even so, these averages help us to understand how deepening engagement translates to a more valuable guest relationship. And last year, Target gained an additional 12 million multichannel guests. Of course, a portion of those guests were completely new to Target, but the vast majority had previously shopped with us, but only in a single channel. The opportunity this year is to build on our now deeper relationship with these guests as we engage with them more frequently and help them migrate toward the much higher average spend we see from our multichannel guests over time.

And today, even though we already have an unmatched suite of digital fulfillment options, there's more we can do for our guests. One way is to continue expanding the assortment of fresh, refrigerated and frozen food items available for Pick Up and Drive Up. When we study the behavior of guests who first shopped for these items through one of these services last year, we saw an average increase in shopping frequency of about 1 visit per month compared with the control group. On average, these guests increase their food and beverage spending between 20% and 30%. And importantly, spend about 20% more in other categories.

As you heard from Christina, we also have an opportunity to continue developing and launching new owned brands while we become an increasingly attractive partner for leading national brands. In the years ahead, we'll likely have many more partnership opportunities. And given our strong performance and financial position, can be very thoughtful in approaching every one of them. This begins by ensuring the partnership is right for our guests and that the partner and financial arrangement are appropriate long-term choices for our business.

And of course, there's a huge opportunity to create value through Target Circle, which has grown in less than 2 years to include more than 90 million members. Circle is easy and free to join and members enjoy rewards that drive engagement directly, which we can measure by the increase in spending among guests who joined. But the value of Circle only begins there because it also helps us to gain an ongoing, deeper understanding of our guests and their changing preferences, helping us to connect them with the services, brands and categories that address those wants and needs.

So it's clear that we're entering 2021 with a lot of momentum and a really strong foundation with a lot more room to grow. As you heard from John, we still have a long runway to expand the available assortment for our same-day services, while we invest to broaden Shipt's reach by entering new markets while expanding in existing ones. When we acquired Shipt in late 2017, we were confident that same-day delivery was a capability every successful retailer would need to have, and we've spent the last 3 years integrating Shipt into our strategy and operations. At the same time, the acquisition has made it easier for Shipt to grow and achieve scale in new markets, given the volume that Target immediately brings to the platform.

And as John covered, we're investing to modernize our network and add replenishment capacity to support future growth. Obviously, we came into last year with a great deal of capacity, but we used up a lot more of it than expected. Here's one way to think about it. At our current average sales per store, last year's growth of $15 billion was equivalent to the addition of more than 300 new Target stores. If we had actually opened that many new locations, we'd have needed some additional upstream capacity, and that need is the same, whether growth is coming from a bigger store footprint or higher productivity in our existing footage.

While I'm on the topic, I want to pause and address the question of whether our stores are going to run out of capacity to grow digital sales. And I'd start with what John mentioned earlier, how our top quartile of stores demonstrate the continued potential for our average stores to handle more throughput. But I want to drill down into a really specific example to provide another view of our untapped capacity. And what we can do when an individual location reaches its limit. To do that, I'm going to go way back in history and talk about our experience at the Target store in Colma, California, part of the San Francisco market.

20 years ago, Colma had grown to be our second highest volume store in the chain, generating more than $90 million in annual sales, nearly 3x our chain average at the time. Given its extreme volume, we suspected the store was running out of capacity, which was limiting its ability to grow. So when the site of a former Montgomery Ward's became available just across the highway in Daly City, we decided to buy it and build a new Target. This was unheard of in our history, building a new store less than a mile away from an existing one, and it was a calculated risk because the new store would only make sense if it drove incremental volume. And that's exactly what happened. The combined sales of the 2 stores quickly grew far beyond what the single store was able to generate. And today, each of those locations is in the top 5% of our stores based on sales volume.

So let's come back to today. Last year, our stores fulfilled more than 95% of our total sales, which works out to an average of about $47 million in fulfilled sales per store. That means our average store today is fulfilling about half of what the Colma store was already supporting 20 years ago. This offers another clear window into the growth potential of our average store today. But will there sometimes be extreme examples of stores that hit their capacity? I hope so because we know what to do when that happens. If we have a viable real estate opportunity nearby, we can invest in another one of these modern multichannel assets we happen to call a Target store. To be clear, based on what we see today, we don't expect a lot of these opportunities over the next few years, but I'd love to be wrong about that since we'd likely generate strong returns on the new stores we could open in those markets. In the meantime, we continue to make productive investments in new small format stores, and we're eager to begin ramping up our remodel program in 2021 and beyond.

So with all these options to generate profitable growth, we're in a position to play offense and lean into the opportunity to build on last year's momentum. As such, we're planning for annual CapEx in the $4 billion range in each of the next few years to support remodels, new stores and supply chain projects to add replenishment capacity and modernize the network, including sortation centers. Beyond full store remodels, we'll also invest in Ulta Beauty shop in shops, while optimizing front end space in our highest volume locations, increasing the efficiency of our Pick Up and Drive Up services.

So now this is the section of my remarks in which you typically expect me to cover our P&L expectations for the year. But today, given the high level of uncertainty we continue to face, providing a lot of guidance would be an exercise in false precision. Instead, I'm going to spend a few minutes talking about the most important factors affecting our near-term plans as we maintain our laser focus on investing for the long term.

So first, as I think about implications for Target's top line in the months and years ahead, I think about the drivers at 3 levels of a funnel. At the widest part of the funnel are macro factors, including uncertainty about the path of COVID-19 and the speed and effectiveness of the vaccine campaign. How consumer attitudes and behaviors will evolve as we emerge from the pandemic. For example, there's an emerging consensus that the nature of work will permanently change as employers move to a more flexible model and allow for more work from home. This will likely have long-lasting implications for consumer spending. And finally, beyond changes in the consumer mindset, macro considerations include the health of the economy, the near-term impact of stimulus and how quickly various industries and communities will recover from the pandemic.

The middle stage of the funnel involves questions around potential industry trends in each of the categories we sell and every industry has its own story. And categories consumed mostly at home, including food and beverage, essentials, home and hardlines, industry trends have accelerated over the last year and could see some softness as we emerge from the crisis. However, the timing and extent is hard to predict and could be offset by permanent changes in consumer habits, including a higher percentage of work time spent at home and an elevated focus on cleanliness and health resulting from the pandemic.

In the beauty and apparel industries, which experienced softness in 2020, trends are expected to improve over time. Specifically, as people resume working in offices, attending concerts, movies and sporting events, traveling and eating out, they're likely to focus more on their appearance and spend more on these categories than they did in 2020. But let's be clear. These are just quick high-level thoughts on potential industry trends and they're far from ironclad predictions.

So as we move to the bottom of the funnel and think about how those trends are likely to play out at Target, we first need to think about market share within those industries and on the topic of share, we have a lot of confidence as we look ahead. In 2020, Target saw unprecedented share gains across all 5 of our core merchandise categories. Importantly, these gains were not limited to the categories in which others were forced to close, and they stayed remarkably consistent throughout the year and across the country. Based on this experience and our investment focus going forward, we're optimistic about our opportunity to lock in recent share gains and deliver long-term growth on top of the foundation we've already established.

So now I want to move beyond the top line and illustrate how we're thinking about other lines on the P&L for the year. And in this discussion, beyond prior year comparisons, I will often be looking back to 2019, since that year provides a more stable baseline compared with the extreme volatility we encountered in 2020. Let's start with our gross margin line, where in 2020, we experienced large but offsetting variances related to specific factors. The first was supply chain and digital fulfillment costs, which drove about 110 basis points of pressure last year. While that headwind was notable, it was less than I believe most of us would have expected, given that we saw $10 billion of digital sales growth, accounting for 2/3 of our total growth. As we look ahead to this year and beyond, we expect to see a smaller amount of pressure from supply chain and digital fulfillment, given that digital growth is likely to moderate, and we continue to make progress in reducing average unit fulfillment costs.

A second headwind to last year's gross margin rate was category mix as lower margin categories grew faster than our higher-margin categories, accounting for about 90 basis points of rate pressure. At a minimum this year, we expect category mix to exert less pressure than last year. And notably, it could easily become a tailwind like it was in prior years. However, our crystal ball is not nearly clear enough today to predict this year's category mix with any precision.

The third factor in last year's gross margin performance was our merchandising decisions, which include our pricing, mix of owned and national brands and the magnitude of our promotional and clearance markdowns. In 2020, the combination of these factors provided a significant tailwind of about 150 basis points, driven primarily by favorability in markdowns. A portion of this favorability was related to promotions, but the biggest single factor was a significant decline in clearance markdown rates as demand in seasonal and other clearance sensitive categories far outpaced our expectations. In 2021, we expect our markdown rates will increase somewhat from these abnormally low levels, which will create some gross margin pressure compared with 2020. So how do these expectations come together in 2021? As we consider the range of expectations for the combined impact of these 3 drivers, we believe that our 2021 gross margin rate will remain somewhat lower than our 2019 gross margin rate of 28.9%.

On the SG&A expense line this year, we'll be annualizing last year's significant investments in safety measures and team member pay and benefits. We'll also be annualizing the fixed cost and other scale benefits we realized throughout the year. Looking ahead, given that we're focused on locking in last year's gains, we expect to retain significant scale benefits compared with 2019. In addition, we expect to deliver continued efficiency improvements, driven by investments in our supply chain, technology and operating model, which will help to offset continued investments in our team. Altogether, we expect that our 2021 SG&A expense rate will also be lower than our 2019 rate of 20.8%.

On the D&A expense line, we expect to see moderate dollar growth in 2021 as we ramp up remodels and accelerate depreciation on the assets we replace. Of course, rate performance will depend on the total sales we deliver this year.

So as we consider how all of these rates come together on the operating margin line, we're facing a wide range of possibilities as we enter the year. I've already talked about the unpredictability of sales and how category and channel mix alone can impact our margin. But even with that uncertainty, we should continue to benefit from the leverage we gained in 2020. Altogether, our expectation is that this year's operating margin rate will move down from the 7% we recorded in 2020 but remain above our 2019 operating margin rate of 6%, with the most likely outcome in the lower half of that range.

So now for those of you hoping we'd provide a more precise view of our expectations today, I want you to know that I feel the same way. I know that it's difficult to model our business right now. Our team is facing the same challenge. In the face of this uncertainty, we continue to put a huge premium on flexibility and agility, which served us extremely well throughout 2020. After all, flexibility is a cornerstone of our business model, which features a uniquely diverse category mix and a store-based fulfillment model that can quickly adapt to changes in guest shopping patterns. With the benefit of this model, an outstanding team and a strong balance sheet, we're perfectly positioned to navigate any near term uncertainty, while we continue to invest in long-term growth. And while it may sound counterintuitive, our expectations for the next few quarters feel cloudier than our view of the longer term, when we're highly confident in our ability to grow profitably and build on recent share gains.

So now before I move beyond the P&L, I want to spend a minute talking about the prior year comparisons we're facing in the first 2 quarters of this year. As you'll recall, in the first quarter last year, sales accelerated meaningfully after the onset of COVID, but our gross margin rate for the quarter declined an astounding amount, more than 4 percentage points in light of the cost to rightsize our apparel inventory.

Also in the first quarter, we began making meaningful investments in the health and safety of our team and guests, which we'd maintained throughout the year. Altogether, our first quarter earnings per share were down more than 60% compared with 2019. Contrast that with the second quarter last year when our comp sales grew more than 24%, our gross margin rate also increased and we saw a jaw dropping amount of leverage on the SG&A and D&A expense lines, which more than offset investments in team and guest safety. As a result, last year's second quarter EPS grew more than 80% compared with 2019. That's a swing of more than 140 percentage points in our EPS growth rates between Q1 and Q2 last year.

So as we plan and analyze our performance in the first 2 quarters of 2021, we're going to lean heavily on comparisons to the much more stable environment we experienced in 2019. This will help all of us to look through the extreme volatility in year-over-year comparisons we'll be seeing throughout the first half of this year.

So now let's move beyond the P&L and turn to cash and capital deployment, and I want to reiterate that our priorities remain the same as they have been for decades. First, we look to invest in the business in all of the projects that meet our strategic and financial criteria. Second, we look to support the dividend and build on our record of annual increases, which we've maintained every year since 1971. One note, if we attain that goal in 2021, it will mark our 50th consecutive year of uninterrupted dividend increases, putting us in a very small group of companies who can make that statement. And finally, we look to deploy excess cash through share repurchases only after we fully supported the first 2 goals within the capacity of our middle A credit ratings.

As you know, last year turned out to be a very strong year for cash flow in light of our sales growth and strong operational performance. As a result, we ended the year with about $8.5 billion of cash, well beyond the amount we'd maintain in ordinary times. But as strong as our year turned out to be, we can't forget the volatility we just encountered and the environment today remains far from ordinary. It's in that context that we evaluate our 2021 capital deployment expectations.

Regarding CapEx, I already outlined our plan to invest about $4 billion this year. Regarding the dividend, later this year, we expect to recommend that our Board approve a robust increase in the per share dividend. But as always, this recommendation will depend on how our business is performing. Beyond those priorities, we've resumed share repurchases this year. And depending on how the virus, the economy and our performance progresses, could have ample capacity within the limits of our middle A credit ratings.

But I will quickly say, we'll continue to be cautious and maintain an ample amount of liquidity to carry us through a wide range of near-term scenarios. As such, it may be a multiyear journey before our credit metrics move fully back to historical levels, depending on the speed with which we see more normal volatility across the economy and our business.

So now I want to turn to our after-tax ROIC. As we've long emphasized, we rely on this metric to assess the health of our business and the effectiveness of our capital deployment over time. However, as is often the case, we sometimes need to look past near-term volatility and 2020 presents a great example. That's because last year, we delivered an astounding aftertax ROIC of 23.5%, up more than 7 percentage points from already strong performance in 2019. While this outcome is remarkable and a testament to our team and operating model, I'm going to quickly say that it's artificially high and likely to come back down over time. That might sound like a strange thing to say, but it's based on a number of factors that are clear today.

First, with unexpectedly strong sales, our inventory turns shot up last year, and we saw abnormally high payables leverage. While that had a positive near-term impact on working capital, we also saw really choppy in stocks, which isn't how we want to operate under normal conditions. In 2021, we're planning for full shelves and better in stocks, which will bring inventory turns and payables leverage back down to more sustainable levels. This will require a net investment of working capital for the year.

Similarly, as I mentioned earlier, we're leaning in to support a strong set of growth opportunities over the next few years. As we accelerate investment in stores, supply chain modernization and replenishment capacity in support of those growth prospects, we'll likely see an increase in the invested capital portion of this metric over the next few years. Bottom line, while I believe this metric will stay very healthy and compare favorably to other retailers, I expect it will move back down into the 20% range over time. This would represent very strong absolute and relative performance on a larger asset base than we've maintained in the past.

So as I get ready to turn things back over to Brian. I want to take you back to this meeting 4 years ago, when I was listening from our headquarters in Minneapolis. During my career at Target, I've been lucky to spend time working with our stores, and I've developed a deep appreciation for the value they can deliver. So when Brian and John stood up and said we'd be investing to put our stores at the center of everything we do, including both digital and physical shopping, I had a ton of confidence in that plan. It was a plan based on carefully listening to our guests, it was differentiated and we were fortunate to have the necessary resources to get there.

In the years following that meeting, our team worked hard, and we encountered many doubters but we continued to invest with a long view and last year's results showed the value of that focus. And as we sit here today, we remain committed to making future investments with that same long view. Rather than sitting back, taking a break and waiting for the virus to subside, we are focused on playing offense and investing in continued growth.

And just like 4 years ago, my confidence in the future starts with the team. So I want to acknowledge everyone on the Target team, from headquarters to our distribution centers, to our stores in all 50 states and our offices around the world for their dedication to our guests and passion for taking care of each other. Without you, we couldn't have delivered such an amazing amount of value on behalf of our stakeholders in 2020. And with your help, I'm confident we'll continue to deliver long-term value for all of our stakeholders in the years ahead. I can't say it enough. Thank you. Thank you. Thank you.

Now I'll turn it back over to Brian for some closing remarks.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Thanks, Michael. As we wind down today's event, I'll leave you with a couple of thoughts. 5 years ago, we envisioned a future for ourselves, in which the key to guest preference and breakout growth lay in an unappreciated omnichannel asset called the store. Many were skeptical, which is why we said from the beginning that we were playing our own game and creating a category of one. Many thought the inevitable drift was for our store guests to become digital guests, and that the current only ran in 1 direction.

We saw something different. We saw a future in which even the most committed digital-only guests would find the best and easiest shopping experience at Target because of how we connect that experience to our stores. We knew that to make our stores function for the future that we envisioned, we'd have to build, acquire and bundle a unique set of capabilities. The technology, the supply chain inventiveness, the physical assets and operations and the team of trusted neighbors that millions turn to for friendly service and a bit of everyday joy.

We began to put all those pieces together like no one else had. And the experience was taking hold, on the timetable we expected. Then 2020 accelerated everything. And today, Target is as synonymous with same-day and safety as it is with style and swagger. That is a very strong position to be in.

And here's where we intend to go with it. First, we'll continue to focus on market share over the long term. We believe our experience, including our fulfillment options, inspiring assortment, ease, safety and personal service will convert more and more consumers into guests. And we'll also work tirelessly to engage established guests across more of our channels and offerings. With new guests choosing Target and established guests engaging with more of our platform, we'll be able to listen to them even more closely. And capabilities like Drive Up, Shipt and Circle will give us a wider window than ever into their preferences. Meaning, we can further improve the experience we provide in the near term, while continuously anticipating where we should go next.

Staying closely connected to our guests always points us in the right direction. That's what helped us see a future 5 years ago, that today is a reality. And it's why we're stepping up our investments to drive additional profitable growth. Unlike in recent years, when we needed to shore up our foundation or create new capabilities, today's investments will build on an omnichannel Target platform that is already working incredibly well. A platform that has raised expectations, not just among Target guests, but for consumers across U.S. retail. Few can meet those expectations like we can because what we've created is based on a unique combination of differentiated assets.

But this is just the beginning of our story on which we'll continue to iterate, innovate and continuously improve for our guests. So in closing, I want to express my complete confidence in this company's future. I'm confident in our strategy and in our capabilities. And above all, I'm confident in our team. They know that no platform succeeds without purpose. And that our ambitions are always informed by the millions of families we serve. The results we're sharing today and what we envision for the future simply wouldn't be possible without the best team in the business. And I want to thank them once again for all they do for Target, our guests and communities.

Finally, I want to thank you for joining our Financial Community Meeting. We appreciate your interest in Target, your engagement in our journey and your long-term investment in a growth horizon that we believe will remain bright for years to come. We look forward to hearing from you in the Q&A portion of our program.

And I'll turn it back to John Hulbert to move us into that discussion. John?

John Hulbert - *Target Corporation - VP of IR*

Thanks, Brian. Before we take a short break, I want to pause and review logistics for the upcoming Q&A session. For those of you planning to listen in, but not ask a question during Q&A, you should simply stay on this webcast, and you'll hear this session in a few minutes. However, if you received our conference call invitation and you plan to ask a question today, you'll need to exit this webcast and dial into the conference line provided on your invitation. Once you're on the conference line, the operator will provide further instructions. But again, if you're planning to access the Q&A session in listen-only mode, your best option is to stay on this webcast even if you received an invitation.

With that, we'll pause for a few minutes to provide ample time for conference call participants to dial in and begin the Q&A session shortly. Thank you.

(Break)

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation 2021 Financial Community Meeting Q&A Session Conference Call. (Operator Instructions) As a reminder, this conference is being recorded Tuesday, March 2, 2021. We are now ready for our first question from Chris Horvers with JPMorgan.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

A near - a '21 question, and then I have a follow-up on a longer-term question. Okay, in the SG&A outlook, on our math, you have about $1 billion related to COVID costs, such as special bonuses and cleaning, while you raised to $15 an hour midyear. To what extent are you assuming these costs come -- are tailwinds in '21? And can you quantify how significant the operating expense related -- is related to investment that's pressuring SG&A dollars?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Sure. I can take that one first, Chris. When you think about [SG&A] through the year, we'll be annualizing the move to $15, and there'll be some onetime things that don't repeat. You think about buying plexiglass dividers, you only do that once. The final story in SG&A will be written by what our sales outcome looks like too. But we've got a lot of levers within the model to continue to bend the cost curves in a direction we like throughout SG&A, the benefit of the volume growth that we've seen is that, that helps us get more and more efficient on how we fulfill that volume.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So then does it mean that sort of the SG&A rate coming back up is more of an embedded sort of negative top line outlook?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

No, I wouldn't think about it that way necessarily. With the SG&A, we expect that our SG&A rate will be lower than 2019's rate, and that's a benefit of the significant scale that we've gained since then. If you zoom out, I think there's going to be a lot of movement between the different levers within margin and SG&A. And so that's why we've tried to give some of our best thinking on operating rate in total. And so a wide range. Not every meeting I would sit here and be describing a 1 point gap in operating margin between the incredibly strong 6 that we had in 2019 and the 7 we just put up. And that whole range is in play. I think it's slightly more likely we're in the bottom half of that range when all the dust settles in the top half, but we're going to have a lot to learn throughout the year based on where we ultimately land.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Understood. And then longer-term and bigger picture, we used to talk about showrooming with Best Buy. I was wondering what the organizational's thought change is on showrooming is versus national brands? You launched Apple and now you have Ulta. What's the thought change here? And what does it say about the willingness to take on more national brands in the apparel space where maybe the brands need to replace volumes from the mall? And is the bar higher here in terms of what those brands will need to bring to get into the Target store?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Yes. Chris, it's Brian. I think one of the things that we underscored throughout the pandemic has been the strength of our stores. And despite many of Americans really avoiding public places, we've seen very strong store comps, obviously, in excess of 7%. And we saw very solid store traffic. So I think we've continued to build trust. And I think coming out of the pandemic, our stores are going to be -- continue to be very relevant, very important. I think they go far beyond showcasing. We know our guests are inspired by shopping in our stores. They enjoy browsing. They enjoy seeing the combination of our owned brands and national brands.

And now I think we just punctuate that further with the addition of brands like Ulta Beauty, Levi's, the expansion of Apple. The work that we've done throughout the year to create a showcase of owned brands and national brands and continue to invest in building a trusted and safe shopping experience. So as we think to the future, stores are going to play a very important role. It's going to be a place where our guests enjoy shopping each and every day. And I think they're going to continue to enjoy our multi-category portfolio for years to come. So we are -- continue to be very bullish on the role stores play. And I think these new national brand partnerships will only accentuate the importance of stores and drive future traffic to our stores.

Operator

Our next question is from Karen Short with Barclays.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

I also had kind of '21 question and then a bigger picture question. So trying the SG&A question a little bit differently. If I look at what I think your COVID costs were and expenses were in 2020, it was north of $1 billion. And I think I calculate around $750 million in wages for the 2 quarters in the back half of 2020. So in theory, that would imply you lose about $1 billion in SG&A dollars in 2021. Is that the right way to think about it? Because it definitely gets me closer kind of to 7% on the operating margins, obviously, depending on sales.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Karen, like similar to the answer I gave, Chris, I think there's going to be a lot of moving variables through the gross margin and SG&A lines. And to get overly precise today about where any one of them comes in, I think, would be a bit of an exercise in false precision. The biggest factor versus a couple of years ago on the SG&A line is going to be the benefit of scale, and we can put that to use in so many ways across the business. And we've got a long history of investing in our team. That was a big part of the journey we embarked on in 2017 and attracting and retaining the best team in retail has been a center of our strategy for the last several years. And we continue to put the team at the forefront this year, and that will continue as well.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Karen, I might as well take the guidance question upfront and kind of remove the bull's eye from Michael's chest, again, no pun intended. But as we sit here today, I think we all recognize this is a very uncertain environment. We're still speculating around what's going to happen with the economy, how employment rates start to recover. While the trends are encouraging right now with the virus, we're all battling COVID each and every day. And while vaccine distribution is accelerating, millions and millions of Americans are still waiting for their turn to get that vaccine. We're still wondering when children go back to school. And when we'll return to the workplace.

So we approach guidance, recognizing there's lots of uncertainty. But I'll go back to the fact that for most of the last year, we haven't provided guidance, but we have focused on execution. And I think our team has proven to be very flexible, very agile. We responded to the environment and we've been focused on delivering a trusted and safe experience for our guests, whether they're shopping in our stores or online. That focus on execution will continue in 2021. And I wouldn't confuse guidance or the lack thereof with our confidence to continue to take market share and outperform in the coming months and years.

So I recognize the frustration of not being more precise, particularly on the top line as we think about sales, but I can guarantee you, our entire leadership team and every part of this organization is focused on retaining and growing market share no matter what the variables are we have to face. So I recognize, and we certainly like to be in a different position today, providing more precision. But what I can tell you is we're going to continue to execute our strategy, leverage our capabilities, our owned brands and national brands, our multi-category assortment and our team to continue to build on the momentum we gained in 2020, leverage the additional $15 billion of revenue we now have inside of our P&L and continue to build on the market share we gained in 2020 and make sure that's very sticky for years to come.

But I recognize for all of you, you'd love more precision around market share. You'd love some more top line insights. I can tell you, we're off to a very strong start in February. In fact, our comps in February started with a 2 handle, and that's a 20 comp in the first part of the year.

So we'll see how that plays out in March and April, but we're off to a strong start. We took significant market share in the fourth quarter. If you recall our comments in earlier meetings, we talked about the fact that in the first 3 quarters of the year, we had picked up approximately $6 billion of market share. So we added another $3 billion of market share during the holiday season, where all of our competitors were operating. So I think the vibrancy of our model, our ability to execute is something that I would ask all of you to focus in on. And I recognize you've got to do that in light of the fact that we haven't provided the precision that we normally do at this time.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

No, I appreciate that. And I just wanted to ask a bigger picture question. With respect to the partnerships that you've announced, what is the gating factor on accelerating or not accelerating some of these partnerships at a faster rate? I mean you've obviously given us the number of remodels that you've done, and I'm sure they're not all a primary target for some of these partnerships, but it seems like you could move a little faster on those. So a little color on that would be great.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Yes. I'll go back over time and think about the work we've been doing for the last 5 or 6 years. We always start by testing and learning. Listening to the guest, listening to our team, iterating along the way, validating our assumptions, both from a sales standpoint and a financial standpoint, before we accelerate. It's the same approach we've taken with remodels over the years and new small formats. It's the same approach we took to Pick Up and Drive Up. And we're doing the same thing as we think about partnerships with great partners like Apple and Ulta Beauty. We want to test and learn, make sure we get the model right. And then as we've demonstrated in the past, we'll hit the accelerator and make sure we expand and leverage scale as quickly as possible.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

Great. And congratulations on a great year.

Operator

The next question is from Edward Kelly from Wells Fargo.

Edward Joseph Kelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Maybe just one on '21 and then also a bigger picture for you. So on the gross margin, can you just provide a bit more color on the '21 gross margin settling in a little bit below '19. Is that just simply a function of digital growth getting ahead of sort of potential offsets and merchandising? And then how are you thinking about the gross margin outlook beyond '21?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Sure. The biggest factor in '21 was the supply chain and digital pressure, about 110 basis points of pressure on the year from that. But I think that's actually a good place to illustrate somewhat how we think about rate. Because to me, it's all about the dollar impact, not the rate impact. And digital is a perfect example. If you would have told us we could double the digital business and only see 110 basis points of pressure last year, I think we all would have taken that outcome. But more important than that, when we're growing digital, we're deepening our relationship with guests. And great things happen in aggregate to us when that occurs.

And so sign me up for more digital growth going forward. We know that's a behavior that will be sticky. Because what comes with that, in addition to a little bit of rate pressure on the margin line, is hugely accretive sales benefits in total. And so biggest driver in 2021 for sure and I would welcome more digital growth going forward and we expect that's a place where we'll continue to excel.

Edward Joseph Kelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then I just wanted to follow-up with a question on Shipt. Can you provide just a bit more color on what you've seen this year from -- or this past year from like a membership trend standpoint, retail partnership growth? And then taking a step back, what's the competitive synergy of owning this business versus utilizing it as if it was a third party provider? And if there was potential to amount value in something like Shipt, would that be something that would interest you?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

John, you want to talk about, Shipt?

John J. Mulligan - *Target Corporation - Executive VP & COO*

Yes, sure. So we were incredibly pleased with Shipt's performance over the past year. They gained market share, very strong results for the business serving our retail partners. And just as important, and I'll come back to this, is Shipt has become an integral part of Target and our fulfillment on same-day operations. So incredibly important there. But I think the team down in Birmingham did an outstanding job this year, just scaling the business, right? They doubled the number of shoppers. We talked about how the Target sales on Shipt grew by 300%. Memberships grew by 130%. We continue to add great retail partners like Best Buy and Bed Bath & Beyond and several local and regional grocers. And so they've done just a really great job continuing to scale that business.

I think when it comes to Shipt and obviously, the relationship with Target, incredibly important part about our same-day options. And you heard us talk all morning today about the key lever that having that suite of fulfillment, same-day fulfillment options for our Target guest has been over the past year and really over the past several years and will continue to be in the future. Not only is that the preferred way our guest continues to grow with us, but they're also economically advantaged. And so we see -- we continue to see huge opportunities for Shipt to continue to work directly with Target to continue to fulfill our guest's needs.

The other thing I would say, is we see when a -- very similar to Drive Up, when a guest engages with Shipt through Target, again, we see growth in our sales in-store and online on the Target platform as well. So they get more engaged with Target. That is hugely valuable for us. So we bought that capability 3 years ago thinking this is what it would be. It would be incredibly important for us from a same-day perspective. It has only become more so has that accelerated through 2020.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

And I'd just go back to a point that we've made a number of times. Our most valuable guest is a guest that uses -- utilizes all of our assets, shops in our stores, leverages Order Pick Up, uses Drive Up when it's convenient for them. And also, more and more, leverages the benefits of a personal shopper through Shipt. So we think that continues to be the easiest place to shop in America. Having all of those assets available for our guests is critically important. And we think those are going to be very sticky over time. Those guests who utilize Drive Up and Shipt during the pandemic, we think there's going to be a lasting connection to those fulfillment options as we go forward in 2021 and beyond.

Operator

The next question is from Ed Yruma with KeyBanc Capital Markets.

Edward James Yruma - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

I guess, first, you were pretty early on in raising wages. Do you think that having a premium relative to some of your competitors is important to kind of keep the customer service level high? I guess I'm just asking that because it does seem like industry wages are moving up. And it's kind of a longer-term question, you guys have done a great job of differentiating your soft goods and your hard lines based on design. I guess as you think about food, particularly fresh food, how do you think you can differentiate and grab share?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Ed, I'll go back to the commitment we made at this meeting in 2017, when John Mulligan and I laid out our strategy for the company and talked about the billions of dollars of capital we'd invest in stores, in remodeling stores, in building new stores and building out our digital and fulfillment capabilities. At that time, we said the most important investment we were making was in our team. And I think the results we've seen in 2017 and 2018 and 2019 and 2020, is a by-product of that commitment to our team. Investing in wages and benefits, investing in training and career opportunities. And I think it's allowed us to build the best team in retail that's incredibly engaged, that's focused on taking care of our guests, but also taking care of each other. And our team was really the star of 2020. They stepped up during the pandemic and made sure we created a safe shopping environment.

As we scale Drive Up and saw growth rates of 500% or 600%, they flexed and we're able to meet the needs of the guests. So I think the fact that we've taken a leadership position with wages, invested in our team, provided them the opportunities to grow their careers, that's a hallmark of the commitment we've made at Target to creating the best team in retail. And I think it's provided great returns on investments for shareholders. So we'll continue to make sure we invest in our team.

To your question around design, the investments we've made in food and beverage, Good & Gather is off to a tremendous start, a multibillion-dollar brand in a short period of time. It's been well received by our guests, great quality, had a great value. And I think it typifies the things we do with our owned brands. And we're very excited about the momentum we had in food and beverage. We took significant market share throughout the year. And the guest has certainly recognized and appreciates the Good & Gather brand. So we think that's a way for us to continue to differentiate our offerings. And as John mentioned, we'll continue to add fresh products to our Drive Up assortment and Pick Up assortment throughout the year, providing our guests access to more of those products that they're looking for each and every day.

Operator

The next question is from Scott Mushkin with R5 Capital.

Scott Andrew Mushkin - *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

So I think the first question I have is really more of, I guess, strategic, structural. Just looking at the growth rate of your fulfillment cost just generally, is that going to be able to go below the growth rate of sales conceivably or conceptually?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Scott, I think on fulfillment costs, we continue to make progress on our fulfillment costs through 2 paths. First is each individual fulfillment service, we continue to lower the absolute cost of providing it. So Order Pick Up today, Drive Up today, Shipt today, ship-from-store, all of those are cheaper than they were 2 years ago. So we continue to see our costs come down there.

The second way we see our costs come down is through mix. Drive Up, Order Pick Up and Shipt all have much better economics, as we've said for years than shipping from the back of our stores, which also has better economics than shipping from our fulfillment centers. So we -- and they are the fastest-growing portion of our portfolio. In addition to that, ship-from-store grows much faster than fulfillment. So we see favorable mix as well. So we continue to be really pleased with the progress we're making on the unit economics of shipping or delivering goods, fulfilling goods to our guests.

The only thing I might add to that is, I mean, John talked about the power of having stores hit the hub of that fulfillment equation, and that helps all those marginal economics. But also important not to forget is the thing that matters most economically with digital is the growth in guest spend in total as they become those omnichannel guests that have a deeper relationship with Target overall.

And so any time we're looking at the slice and dicing of the P&L by channel, which we do a lot of, and we've made a lot of progress getting more efficient over time, that always has to be stapled to the greater impact of that greater guest spend in total as they use more and more of our digital fulfillment services.

Scott, one of the examples we've shared over the last year is the Target guest that is now using Drive Up, actually spends more money in store. It just deepens that relationship. So we can look at the economics, fulfillment node by fulfillment node, but it's really how it all comes together and how we deepen relationship with our guests, get them to use all of our assets and utilize both stores and digital fulfillment channels over time. So as John said, we're going to continue to improve the economics of each one of those capabilities but it's really the sum of the parts and that deeper relationship we build as our guests use more of our fulfillment nodes over time.

Scott Andrew Mushkin - *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

I appreciate that answer. I mean as a follow-up to what you guys are saying. I mean, obviously, Amazon has struggled with this, too, right? Their fulfillment costs grow faster than their sales. So if we're -- and I think, looking at it, as in kind of just as one kind of fulfillment cost, I mean, do you guys see a path ever for -- because I know Amazon struggled here too, like to getting fulfillment costs to grow on a slower basis than your sales? Because that's obviously where the leverage would be able to come in if you can make that happen.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Scott, the place I'd start is the power that the store gives us to fulfill because everything is cheaper when it comes to the store. And that helps us on the cost question that you asked. It's cheaper to ship a box a shorter distance from a local store after it's ridden our supply chain rails all the way to that store. Same-day fulfillment economics look a lot like store economics to us. And that's the piece to John's point that's growing fastest. And so the stores give us an incredible advantage to have advantaged cost profile as we fulfill.

The other thing that the stores give us that has been incredibly valuable this year is great flexibility. We've seen the ability for stores to scale to meet guests' need in a way that I think probably would have surprised us if we can go back a year in time and see it all coming. But stores are so flexible. There's real power in being able to say, it's that same piece of inventories sitting on a shelf, and we can put it in a box and ship it out the back. We can drop it in a guest's trunk via a Drive Up. They can place it in their cart on a store trip and not having to be able to see perfectly exactly how that demand is going to come, but knowing the inventory can fulfill it and our great store team can make it happen however the guest chooses to shop gives us a huge flexibility advantage as well.

John J. Mulligan - *Target Corporation - Executive VP & COO*

Yes. And just piling on now. The other thing, I go back to what Michael and Brian both said, it's the sum of the parts. And I don't think we need any more than to look at last year to see that when the sum of the parts operate together, we grew digital at an astronomical rate. We grew the store at a great rate. And together, we generated significant profits. So it is the sum of the parts working together that is the real power for us. And then Michael, I think, talked about this today that when you start to disaggregate them, you start picking at things that don't make a whole lot of sense because of the way we package the whole thing together to deliver that for our guests and the economic returns that provides for us in total.

Scott Andrew Mushkin - *R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research*

Perfect, guys. And hats off to you guys in the stores and everything else for doing what you did this year. It's just amazing, you could do so much more volume and perform so well. So congratulations on that.

Operator

The next question is from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

My first question, I want to ask, I guess, longer-term question on margins. It's sort of outside of '21 so I know '21, there's not a lot of visibility. But I know the conversations we've had about margins is more about there an outcome and you're not managing to a particular margin. Beyond '21, is there anything that could hold margin back in terms of some of the investments that you have planned for the out years?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Thanks for the question, Simeon. When I think about margins in the long run, the straw that will stir that drink is sales growth. And we're incredibly confident in the way we're positioned to build on the deepening guest trust the beginning of this year with long-term sales growth. You can see the power of leverage in our model in an exaggerated way in 2020, no doubt. But that's the focus of where we're investing going forward is to continue to gain share and grow the top line because that gives us a lot of levers to pull below there on the margin line. Yes.

So the other thing that we've talked about periodically is the importance of mix in our business. And over time, our multi-category portfolio is a huge asset. Christina has been obviously in a merchant chair for a number of years and understands the importance of balancing our multi-category portfolio, the balance between our owned brands and national brands. And as John and Michael have talked about periodically, as we think about the future from a digital standpoint, we think that's going to continue to move more and more towards same-day, which from a mix standpoint is very advantageous to us. So I think our outlook for margin over the long-term is very bullish.

As we leverage our multi-category portfolio, we continue to build our owned brands as well as great national brand partners. But as we continue to see guests take advantage of the speed and convenience of same-day digital fulfillment, all those things add up to a very healthy mix management and margin control.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Great. Okay. And my follow-up is on the $9 billion of share that you gained in 2020. I saw it was one of the pillars in that pyramid debt foundation. Can you talk about how you're thinking about retaining it? Anything more in terms of -- you're hoping to keep 100% of it and build from it. Can you share a range of outcomes in terms of share retention? And then anything on the categories that you think you can make the most headway with in 2021?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Simeon, I'll come back to -- we saw a really strong share performance against our entire portfolio in 2020. And that continued in the fourth quarter, and we expect to continue to be in a strong share position in 2021. Obviously, we're still sorting through what the overall industry performance will look like, category by category as we think about 2021. But I'll let Christina comment on some of the early observations that we have as we think about the strength in our owned brands, some of the newness that we're bringing to market, the new national brand partnerships and the great investments we have with both our owned brand and national brand vendor partners. So I think we're well positioned to continue to grow share. And I think the investments we're making in our stores and the store experience and in digital positions us well to continue to grow share for years to come.

Christina Hennington - *Target Corporation - Executive VP & CGO*

Yes. I might add a few points there, but to really punctuate what Brian said is the multi-category portfolio that we have gives us so much flexibility. And if we follow the guest, we will deliver. We -- when the guests chose not to really change their order very much and more yield pass all year, it had an impact on the apparel industry, yet we significantly outpaced the performance in that industry. This year, people are going to buy new clothes because people don't want to wear the same thing over and over. They'll do their makeup. They might even buy a piece of luggage if they're venturing out of the trip. And that ability to flex with the needs of the guests through the breadth of our portfolio is what's going to keep us growing share and gaining against the industry for years to come.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Great, and congratulations.

Operator

The next question is from Stephanie Wissink with Jefferies.

Corey Michael Grady - *Jefferies LLC, Research Division - Equity Analyst*

This is Corey Grady on for Steph Wissink. I wanted to follow-up on the February comp comment. How much of that strength would you attribute to stimulus? And can you compare the impact of this round on what you saw last summer?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Yes. We've spent a lot of time trying to sort through some of the factors behind that. Again, I think so much of it has been the investments we've made in safety and the shopping experience throughout the last year. We certainly have seen guests shop all of our categories in the month of February. So broad-based strength. And I think, again, the guest is responding to some of the newness in our assortment. And to Christina's point, they're looking for the opportunity to shop our stores and find new items. They're tired of the yoga pants and really appreciate some of the new assortment we have in apparel. They're still shopping for their homes as they refresh the core. They're still heating at home so kitchen and food-related items are still really important.

So we see a guest shopping all of our categories, taking advantage of both stores and our digital channels. And I think it's a byproduct of the investments we've made throughout the pandemic to build trust to make sure they know we've got a safe shopping environment and the great work that our teams have done to make sure that they're focused every day on meeting the needs to our guests. So very encouraged with the month of February. And we'll continue to make sure we stay agile and flexible to meet the needs of the guests throughout the next 11 months.

Corey Michael Grady - *Jefferies LLC, Research Division - Equity Analyst*

As a follow-up, I wanted to ask about your inventory position. Where do you stand on in-stock positions today? Are you seeing any gaps that you feel you need to remediate in the near term?

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Christina?

Christina Hennington - *Target Corporation - Executive VP & CGO*

We're very pleased with our inventory position. We continue to build in support of sales. And the reality is that we are -- we're looking to fill in the gaps where we have a few selectively, but it's been a marked improvement throughout the year and the responsiveness of our team is incredible. We have not only a very responsible supply chain team here in the United States, but across the whole world. That intel and insight allows us to manage a very complex supply chain with efficiency and always been focused on getting our out of stocks in the best position possible.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

And Corey, an opportunity to really thank our vendor partners who have been very responsive to meeting our needs. Obviously, no one anticipated the kind of comps we were driving in 2020. I talked about the almost historic number we delivered in January, and our vendor partners have been very responsive, working with our merchants and supply chain teams to ensure that we fill in some of those gaps and have the inventory we need as we go forward.

Operator

Our next question is from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

Curious when you look back on 2020, how many new customers were new to Target? And how did that break down versus when you acquired them first half or second half? And is there anything you can share in terms of the patterns that you saw in terms of those gained in the first half? How did they spend in the second half? Maybe talk about the frequency and spend in their purchases.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Sure. I can start. Thanks for the question, Paul. As we think about new customers, no doubt, there are some new customers to Target this year. We've shared some of the digital guests that we've gained in past calls. The thing that we're most focused on is deepening the relationship of those guests that have really stepped up their trust and their spend and their share of wallet with Target over the last year. And so we talked about the 12 million new omnichannel guests this year. That's the place where we focused a lot of that kind of deepening of the guest relationship and the things that we're tracking. We're encouraged to see the stickiness of a lot of the new behaviors that were tried in 2020.

So things like Drive Up, thanks to the incredible experience our store teams provide. Once guests try a service like that, they come back and we've seen higher rates of stickiness this year than historically for some of those digital fulfillment services. And that bodes well for the stickiness of those guests and those behaviors going forward. And so while we do watch new guests, and it's great to get a new guest and convert them to a deeper Target guests over time, a lot of America shops Target and it's the deepening of those existing guests as they shop us in new and different ways and more often, that's our focus.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Yes. Paul, the only other point I would add is, as we've looked at the guests during the pandemic, we know they're consolidating where they shop. And we may have had a Target guest that was shopping for home or beauty, but they're now shopping for apparel, picking up food and beverage, exploring new categories. They may be coming to us for electronics and toys. So to Michael's point, while most of America shops with Target, during the pandemic, we've seen consumers consolidate the number of places where they shop. They're now experiencing and are active in more categories, and we think that provides lasting benefits for us for years to come.

Operator, it looks like we've got time for one final question today.

Operator

Our last question is from Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman - *Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst*

I wanted to kind of continue on that train of thought, Brian, with regard to customers come in for one thing, they shop for others, what are you guys doing from a data analytics standpoint and to really stimulate the customer to buy more items beyond what they normally buy? And I was just curious where we're at in terms of the data analytics and leveraging the data to really harness it and make it more useful.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Joe, obviously, it's been a big area of focus for us for many years. And I'll come back to something we haven't talked about a lot today, which is the membership within Target Circle. The fact that we now have 90 million members in Target Circle, which gives us an understanding of their needs, their wants, how they're shopping, new categories and new items we can introduce them to. So we're going to continue to make sure we leverage Target Circle to build deeper relationships, introduce that guest to new categories, new fulfillment options. And over time, we think that's a very valuable asset that will continue to drive growth, help us build market share and continue the momentum that we established in 2020.

So with that, I want to thank everyone for joining us today. We look forward to seeing all of you in person in 2022. And obviously, John and Michael will be available for any follow-up questions today or over the balance of the week.

So thank you for joining us, and stay well.