

TARGET CORP
Form 10-Q
August 21, 2017

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

FORM 10-Q

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

For the quarterly period ended July 29, 2017

Commission File Number 1-6049

TARGET CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes x No o

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

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

| | | |
|-------------|-----------------|-----------------|
| Large | Accelerated | Non-accelerated |
| accelerated | filer o | filer o |
| filer x | | |
| Smaller | Emerging growth | |
| reporting | company o | |
| company o | | |

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

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

Yes No

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practicable date. Total shares of common stock, par value \$0.0833, outstanding at August 15, 2017 were 546,231,798.

TARGET CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations

| (millions, except per share data) (unaudited) | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 |
| Sales | \$ 16,429 | \$ 16,169 | \$32,446 | \$32,364 |
| Cost of sales ^(a) | 11,419 | 11,172 | 22,618 | 22,421 |
| Gross margin | 5,010 | 4,997 | 9,828 | 9,943 |
| Selling, general and administrative expenses | 3,382 | 3,249 | 6,515 | 6,402 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) ^(a) | 514 | 500 | 1,022 | 981 |
| Earnings from continuing operations before interest expense and income taxes | 1,114 | 1,248 | 2,291 | 2,560 |
| Net interest expense | 135 | 307 | 278 | 722 |
| Earnings from continuing operations before income taxes | 979 | 941 | 2,013 | 1,838 |
| Provision for income taxes | 308 | 316 | 664 | 599 |
| Net earnings from continuing operations | 671 | 625 | 1,349 | 1,239 |
| Discontinued operations, net of tax | 1 | 55 | 4 | 73 |
| Net earnings | \$ 672 | \$ 680 | \$ 1,353 | \$ 1,312 |
| Basic earnings per share | | | | |
| Continuing operations | \$ 1.22 | \$ 1.07 | \$2.45 | \$2.10 |
| Discontinued operations | — | 0.09 | 0.01 | 0.12 |
| Net earnings per share | \$ 1.22 | \$ 1.17 | \$2.45 | \$2.22 |
| Diluted earnings per share | | | | |
| Continuing operations | \$ 1.22 | \$ 1.07 | \$2.44 | \$2.08 |
| Discontinued operations | — | 0.09 | 0.01 | 0.12 |
| Net earnings per share | \$ 1.22 | \$ 1.16 | \$2.44 | \$2.20 |
| Weighted average common shares outstanding | | | | |
| Basic | 549.3 | 582.2 | 550.8 | 590.3 |
| Dilutive impact of share-based awards | 2.6 | 4.6 | 2.8 | 5.0 |
| Diluted | 551.9 | 586.8 | 553.6 | 595.3 |
| Antidilutive shares | 5.2 | 0.2 | 3.6 | 0.1 |
| Dividends declared per share | \$ 0.62 | \$ 0.60 | \$ 1.22 | \$ 1.16 |

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

^(a) Refer to Note 3 for information about a reclassification of supply chain-related depreciation expense to cost of sales.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

| (millions) (unaudited) | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 |
| Net earnings | \$ 672 | \$ 680 | \$1,353 | \$1,312 |
| Other comprehensive income | | | | |
| Pension and other benefit liabilities, net of taxes of \$5, \$3, \$10 and \$8 | 7 | 5 | 14 | 12 |
| Currency translation adjustment and cash flow hedges, net of taxes of \$1, \$0, \$1, and \$1 | 3 | — | 8 | 5 |
| Other comprehensive income | 10 | 5 | 22 | 17 |
| Comprehensive income | \$ 682 | \$ 685 | \$1,375 | \$1,329 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Financial Position

| (millions) (unaudited) | July 29, 2017 | January 28, 2017 | July 30, 2016 |
|--|------------------|---------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | \$2,291 | \$ 2,512 | \$ 1,480 |
| Inventory | 8,257 | 8,309 | 8,631 |
| Assets of discontinued operations | 19 | 69 | 83 |
| Other current assets | 1,053 | 1,100 | 1,309 |
| Total current assets | 11,620 | 11,990 | 11,503 |
| Property and equipment | | | |
| Land | 6,089 | 6,106 | 6,111 |
| Buildings and improvements | 28,041 | 27,611 | 27,315 |
| Fixtures and equipment | 5,361 | 5,503 | 5,282 |
| Computer hardware and software | 2,518 | 2,651 | 2,504 |
| Construction-in-progress | 423 | 200 | 232 |
| Accumulated depreciation | (17,571) | (17,413) | (16,510) |
| Property and equipment, net | 24,861 | 24,658 | 24,934 |
| Noncurrent assets of discontinued operations | 10 | 12 | 17 |
| Other noncurrent assets | 875 | 771 | 834 |
| Total assets | \$37,366 | \$ 37,431 | \$37,288 |
| Liabilities and shareholders' investment | | | |
| Accounts payable | \$7,584 | \$ 7,252 | \$6,811 |
| Accrued and other current liabilities | 3,790 | 3,737 | 3,544 |
| Current portion of long-term debt and other borrowings | 1,354 | 1,718 | 647 |
| Liabilities of discontinued operations | 1 | 1 | 1 |
| Total current liabilities | 12,729 | 12,708 | 11,003 |
| Long-term debt and other borrowings | 10,892 | 11,031 | 12,063 |
| Deferred income taxes | 784 | 861 | 754 |
| Noncurrent liabilities of discontinued operations | 18 | 18 | 19 |
| Other noncurrent liabilities | 1,845 | 1,860 | 1,872 |
| Total noncurrent liabilities | 13,539 | 13,770 | 14,708 |
| Shareholders' investment | | | |
| Common stock | 46 | 46 | 48 |
| Additional paid-in capital | 5,707 | 5,661 | 5,562 |
| Retained earnings | 5,961 | 5,884 | 6,579 |
| Accumulated other comprehensive loss | (616) | (638) | (612) |
| Total shareholders' investment | 11,098 | 10,953 | 11,577 |
| Total liabilities and shareholders' investment | \$37,366 | \$ 37,431 | \$37,288 |

Common Stock Authorized 6,000,000,000 shares, \$.0833 par value; 546,183,291, 556,156,228 and 574,801,225 shares issued and outstanding at July 29, 2017, January 28, 2017 and July 30, 2016, respectively.

Preferred Stock Authorized 5,000,000 shares, \$.01 par value; no shares were issued or outstanding at July 29, 2017, January 28, 2017 or July 30, 2016.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| (millions) (unaudited) | Six Months Ended | |
|--|---------------------|------------------|
| | July 29, 2017 | July 30, 2016 |
| Operating activities | | |
| Net earnings | \$1,353 | \$1,312 |
| Earnings from discontinued operations, net of tax | 4 | 73 |
| Net earnings from continuing operations | 1,349 | 1,239 |
| Adjustments to reconcile net earnings to cash provided by operations | | |
| Depreciation and amortization | 1,151 | 1,116 |
| Share-based compensation expense | 43 | 67 |
| Deferred income taxes | (87) | (79) |
| Loss on debt extinguishment | — | 422 |
| Noncash losses / (gains) and other, net | 81 | (26) |
| Changes in operating accounts | | |
| Inventory | 52 | (29) |
| Other assets | 74 | 131 |
| Accounts payable | 332 | (607) |
| Accrued and other liabilities | (129) | (838) |
| Cash provided by operating activities—continuing operations | 2,866 | 1,396 |
| Cash provided by operating activities—discontinued operations | 57 | 92 |
| Cash provided by operations | 2,923 | 1,488 |
| Investing activities | | |
| Expenditures for property and equipment | (1,203) | (684) |
| Proceeds from disposal of property and equipment | 22 | 14 |
| Other investments | (80) | 1 |
| Cash required for investing activities | (1,261) | (669) |
| Financing activities | | |
| Additions to long-term debt | — | 1,979 |
| Reductions of long-term debt | (614) | (2,611) |
| Dividends paid | (663) | (666) |
| Repurchase of stock | (615) | (2,238) |
| Stock option exercises | 9 | 151 |
| Cash required for financing activities | (1,883) | (3,385) |
| Net decrease in cash and cash equivalents | (221) | (2,566) |
| Cash and cash equivalents at beginning of period | 2,512 | 4,046 |
| Cash and cash equivalents at end of period | \$2,291 | \$1,480 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Investment

| | Common | Stock | Additional | | Accumulated | |
|----------------------------|--------|-------|------------|----------|-----------------|------------|
| (millions) (unaudited) | Stock | Par | Paid-in | Retained | Other | Total |
| | Shares | Value | Capital | Earnings | (Loss) / Income | |
| January 30, 2016 | 602.2 | \$ 50 | \$ 5,348 | \$ 8,188 | \$ (629 |) \$12,957 |
| Net earnings | — | — | — | 2,737 | — | 2,737 |
| Other comprehensive loss | — | — | — | — | (9 |) (9) |
| Dividends declared | — | — | — | (1,359 |) — | (1,359) |
| Repurchase of stock | (50.9 |) (4 |) — | (3,682 |) — | (3,686) |
| Stock options and awards | 4.9 | — | 313 | — | — | 313 |
| January 28, 2017 | 556.2 | \$ 46 | \$ 5,661 | \$ 5,884 | \$ (638 |) \$10,953 |
| Net earnings | — | — | — | 1,353 | — | 1,353 |
| Other comprehensive income | — | — | — | — | 22 | 22 |
| Dividends declared | — | — | — | (675 |) — | (675) |
| Repurchase of stock | (10.6 |) — | — | (601 |) — | (601) |
| Stock options and awards | 0.6 | — | 46 | — | — | 46 |
| July 29, 2017 | 546.2 | \$ 46 | \$ 5,707 | \$ 5,961 | \$ (616 |) \$11,098 |

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (unaudited)

1. Accounting Policies

These financial statements should be read in conjunction with the financial statement disclosures in our 2016 Form 10-K.

We use the same accounting policies in preparing quarterly and annual financial statements. All adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature. Certain prior-year amounts have been reclassified to conform to the current year presentation. Note 3 provides more information about a reclassification of supply chain-related depreciation expense to cost of sales. Unless otherwise noted, amounts presented within the Notes to Consolidated Financial Statements refer to our continuing operations.

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

2. Revenues

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). We plan to adopt the standard in the first quarter of fiscal 2018 using the full retrospective approach. We do not expect the standard to materially affect our consolidated net earnings, financial position, or cash flows.

We are evaluating the impact the standard has on our determination of whether we act as principal or agent in certain vendor arrangements where the purchase and sale of inventory is virtually simultaneous. We currently record virtually all revenue and related costs gross, with approximately 3 percent of consolidated sales made under such arrangements. Due to the varying terms of these arrangements, the presentation required under the standard will depend on contract-specific terms and, in some instances, may result in net presentation of these amounts. Any change to net presentation would not impact gross margin dollars or earnings. We also expect minor changes to the timing of recognition of revenues related to promotional gift cards, and we expect to present certain other income streams, including credit card profit sharing income, in an other revenue line on our Consolidated Statements of Operations upon adoption.

3. Cost of Sales and Selling, General and Administrative Expenses

During the second quarter of 2017, we reclassified supply chain-related depreciation expense to cost of sales whereas it was previously included in depreciation and amortization on our Consolidated Statements of Operations. We reclassified prior year amounts to reflect this change. This reclassification increased cost of sales by \$64 million and \$129 million for the three and six months ended July 29, 2017, respectively, and \$70 million and \$135 million for the three and six months ended July 30, 2016, respectively, with equal and offsetting decreases to depreciation and amortization. This reclassification had no impact on sales, EBIT, net earnings or earnings per share.

The following table illustrates the primary items classified in each major expense category:

| Cost of Sales | Selling, General and Administrative Expenses |
|--|---|
| Total cost of products sold including: | Compensation and benefit costs for stores and headquarters |
| • Freight expenses associated with moving merchandise from our vendors to and between our distribution centers and our retail stores | Occupancy and operating costs of retail and headquarters facilities |

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- Vendor income that is not reimbursement of specific, incremental and identifiable costs
- Advertising, offset by vendor income that is a reimbursement of specific, incremental and identifiable costs
- Inventory shrink
- Pre-opening and exit costs of stores and other facilities
- Markdowns
- U.S. credit cards servicing expenses and profit sharing
- Outbound shipping and handling expenses associated with sales to our guests
- Costs associated with accepting 3rd party bank issued payment cards
- Payment term cash discounts
- Litigation and defense costs and related insurance recovery
- Distribution center costs, including compensation and benefits costs and depreciation
- Other administrative costs
- Import costs

Note: The classification of these expenses varies across the retail industry.

4. Fair Value Measurements

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

Fair Value Measurements - Recurring Basis

| (millions) | Pricing Category | Fair Value at | | |
|---|------------------|---------------|------------------|---------------|
| | | July 29, 2017 | January 28, 2017 | July 30, 2016 |
| Assets | | | | |
| Cash and cash equivalents | | | | |
| Short-term investments held by U.S. entities | Level 1 | \$251 | \$ 1,110 | \$ 303 |
| Short-term investments held by entities located outside the U.S. ^(a) | Level 1 | 1,366 | 762 | 497 |
| Other current assets | | | | |
| Prepaid forward contracts | Level 1 | 37 | 26 | 31 |
| Beneficial interest asset | Level 3 | 6 | 12 | 13 |
| Interest rate swaps ^(b) | Level 2 | — | 1 | — |
| Other noncurrent assets | | | | |
| Interest rate swaps ^(b) | Level 2 | 4 | 4 | 28 |
| Beneficial interest asset | Level 3 | — | — | 6 |

^(a) Amounts may be subject to tax if repatriated.

^(b) See Note 8 for additional information on interest rate swaps.

| (millions) | July 29, 2017 | | January 28, 2017 | | July 30, 2016 | |
|---------------------|-----------------|------------|------------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Debt ^(b) | \$11,122 | \$12,143 | \$11,715 | \$12,545 | \$11,712 | \$13,542 |

^(a) The carrying amounts of certain other current assets, accounts payable, and certain accrued and other current liabilities approximate fair value due to their short-term nature.

^(b) The carrying amount and estimated fair value of debt exclude unamortized swap valuation adjustments and capital lease obligations.

5. Cash and Cash Equivalents

Cash equivalents include highly liquid investments with an original maturity of three months or less from the time of purchase. Cash equivalents also include amounts due from third-party financial institutions for credit and debit card transactions, which typically settle in 5 days or less.

| (millions) | July 29, 2017 | January 28, 2017 | July 30, 2016 |
|--|----------------------------|------------------|---------------|
| | Cash held by U.S. entities | \$239 | \$257 |
| Cash held by entities located outside the U.S. ^(a) | 21 | 17 | 13 |
| Short-term investments held by U.S. entities | 251 | 1,110 | 303 |
| Short-term investments held by entities located outside the U.S. ^(a) | 1,366 | 762 | 497 |
| Receivables from third-party financial institutions for credit and debit card transactions | 414 | 366 | 418 |
| Cash and cash equivalents | \$2,291 | \$2,512 | \$1,480 |

^(a) Amounts may be subject to tax if repatriated.

6. Property and Equipment

We review long-lived assets for impairment when events or changes in circumstances—such as a decision to relocate or close a store or distribution center, make significant software changes or discontinue projects—indicate that the asset's carrying value may not be recoverable. We recognized impairment losses of \$87 million and \$88 million during the three and six months ended July 29, 2017, respectively, primarily resulting from planned or completed store closures and supply chain changes. We recognized impairment losses of \$27 million and \$28 million during the three and six months ended July 30, 2016, respectively, primarily resulting from planned or completed store closures. The impairments are recorded in selling, general and administrative expense on the Consolidated Statements of Operations and are included in segment results.

7. Notes Payable and Long-Term Debt

We obtain short-term financing from time to time under our commercial paper program, a form of notes payable. No balances were outstanding at any time during the six months ended July 29, 2017 and July 30, 2016.

In May 2017, we used cash on hand to repay \$598 million of debt at its maturity.

In April 2016, we issued unsecured fixed rate debt of \$1 billion at 2.5% that matures in April 2026 and \$1 billion at 3.625% that matures in April 2046. During the first and second quarter of 2016, we used cash on hand and proceeds from these issuances to repurchase \$565 million and \$824 million of debt, respectively, before its maturity at a market value of \$820 million and \$981 million, respectively. We recognized a loss on early retirement of approximately \$261 million and \$161 million in first and second quarter of 2016, respectively, which was recorded in net interest expense in our Consolidated Statements of Operations.

8. Derivative Financial Instruments

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

As of July 29, 2017 and July 30, 2016, interest rate swaps with notional amounts totaling \$1,000 million were designated fair value hedges. No ineffectiveness was recognized during the three and six months ended July 29, 2017 or July 30, 2016.

As of July 29, 2017 and July 30, 2016, one interest rate swap with a notional amount of \$250 million was not designated a fair value hedge because it was de-designated concurrent with the repurchase of debt during the first half of 2016.

We recorded income of \$2 million and \$6 million during the three and six months ended July 29, 2017, respectively, and \$8 million and \$16 million during the three and six months ended July 30, 2016, respectively, within net interest expense on our Consolidated Statements of Operations related to periodic payments, valuation adjustments, and amortization of gains or losses on our interest rate swaps.

9. Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

We must adopt the standard no later than the first quarter of 2019, which begins on February 3, 2019. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

We plan to adopt the standard in the first quarter of 2018. We expect to take advantage of the package of practical expedients permitted within the new standard, which among other things, allows us to carryforward the historical lease classification. In addition, we plan to elect the hindsight practical expedient to determine the reasonably certain lease term. While lease classification will remain unchanged, hindsight may result in different accounting lease terms for certain leases and affect the timing of depreciation, interest, and rent expense, and the amount of lease assets and liabilities recognized. We expect to make an accounting policy election that would keep leases with an initial term of 12 months or less off of the balance sheet and would result in recognizing those lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term.

While we are continuing to assess all potential impacts of the standard, we expect to record additional net lease liabilities of \$1.2-\$1.7 billion, with an offsetting increase to leased assets of \$0.9-\$1.4 billion. The difference between these amounts will be recorded as an adjustment to retained earnings. We do not believe the standard will materially affect our consolidated net earnings. These estimates — based on our current lease portfolio — may change as we continue to evaluate the new standard and as we implement a new lease accounting information system. The estimates could also change due to changes in the lease portfolio, which could include (a) lease volume, (b) lease commencement dates, and (c) renewal option and lease termination expectations. We will update our estimates each quarter as changes occur.

We do not believe the new standard will have a notable impact on our liquidity. The standard will have no impact on our debt-covenant compliance under our current agreements.

10. Share Repurchase

| (millions, except per share data) | Six Months Ended | |
|-----------------------------------|------------------|---------------|
| | July 29, 2017 | July 30, 2016 |
| Total number of shares purchased | 10.6 | 30.4 |
| Average price paid per share | \$56.76 | \$73.70 |
| Total investment | \$601 | \$2,243 |

11. Pension Benefits

We provide pension plan benefits to certain eligible team members.

| (millions) | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|---------------|------------------|---------------|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 |
| Net Pension Benefits Expense | | | | |
| Service cost | \$ 21 | \$ 20 | \$42 | \$ 41 |
| Interest cost | 34 | 35 | 69 | 69 |
| Expected return on assets | (61) | (65) | (123) | (129) |
| Amortization of losses | 15 | 13 | 30 | 25 |
| Amortization of prior service cost | (3) | (3) | (5) | (6) |
| Total | \$ 6 | \$ — | \$13 | \$ — |

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715), which requires employers to disaggregate and present separately the current service cost component from the other components of net benefit cost within the Consolidated Statement of Operations. We plan to adopt the standard in the first quarter of fiscal 2018. We expect to reclassify the other components of net benefit cost to an other income and expense line on our Consolidated Statements of Operations upon adoption.

12. Accumulated Other Comprehensive (Loss) / Income

| (millions) | Cash Flow Hedges | Currency Translation Adjustment | Pension and Other Benefits | Total |
|------------|------------------|---------------------------------|----------------------------|-------|
| | | | | |

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| | | | | |
|---|----------|----------|-----------|---------|
| January 28, 2017 | \$ (16) | \$ (21) | \$ (601) | \$(638) |
| Other comprehensive income before reclassifications | — | 6 | — | 6 |
| Amounts reclassified from AOCI | 2 | (a) — | 14 | (b) 16 |
| July 29, 2017 | \$ (14) | \$ (15) | \$ (587) | \$(616) |

(a) Represents gains and losses on cash flow hedges, net of \$1 million of taxes.

(b) Represents amortization of pension and other benefit liabilities, net of \$10 million of taxes.

13. Segment Reporting

Our segment measure of profit (segment earnings before interest expense and income taxes) is used by management to evaluate performance and make operating decisions. We operate as a single segment that includes all of our continuing operations, which are designed to enable guests to purchase products seamlessly in stores or through our digital channels. Virtually all of our consolidated revenues are generated in the United States. The vast majority of our long-lived assets are located within the United States.

| Business Segment Results (millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 |
| Sales | \$16,429 | \$16,169 | \$32,446 | \$32,364 |
| Cost of sales ^(a) | 11,419 | 11,172 | 22,618 | 22,421 |
| Gross margin | 5,010 | 4,997 | 9,828 | 9,943 |
| Selling, general, and administrative expenses ^(c) | 3,382 | 3,256 | 6,515 | 6,398 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) ^(a) | 514 | 500 | 1,022 | 981 |
| Segment earnings before interest expense and income taxes | 1,114 | 1,241 | 2,291 | 2,564 |
| Pharmacy Transaction-related costs ^{(b)(c)} | — | 7 | — | (4) |
| Earnings from continuing operations before interest expense and income taxes | 1,114 | 1,248 | 2,291 | 2,560 |
| Net interest expense | 135 | 307 | 278 | 722 |
| Earnings from continuing operations before income taxes | \$979 | \$941 | \$2,013 | \$1,838 |

Note: Amounts may not foot due to rounding.

^(a) Refer to Note 3 for information about the impact of a reclassification of supply chain-related depreciation expense.

^(b) For the three and six months ended July 30, 2016, represents items related to the December 2015 sale of our former pharmacy and clinic businesses to CVS (Pharmacy Transaction).

^(c) The sum of segment SG&A expenses and Pharmacy Transaction-related costs equal consolidated SG&A expenses.

| Reconciliation of Segment Assets to Total Assets (millions) | July 29, 2017 | January 28, 2017 | July 30, 2016 |
|--|---------------|------------------|---------------|
| Segment assets | \$37,337 | \$ 37,350 | \$37,182 |
| Assets of discontinued operations | 29 | 81 | 100 |
| Unallocated assets ^(a) | — | — | 6 |
| Total assets | \$37,366 | \$ 37,431 | \$37,288 |

^(a) Represents the insurance receivable related to the 2013 data breach.

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

Executive Summary

Second quarter 2017 includes the following notable items:

GAAP earnings per share from continuing operations were \$1.22.

Adjusted earnings per share from continuing operations were \$1.23.

Comparable sales increased 1.3 percent, driven by a 2.1 percent increase in traffic.

Comparable digital channel sales increased 32 percent.

We made \$717 million of capital investments and returned \$627 million to shareholders through dividends and share repurchase.

Sales were \$16,429 million for the three months ended July 29, 2017, an increase of \$260 million or 1.6 percent from the same period in the prior year. Operating cash flow provided by continuing operations was \$2,866 million and \$1,396 million for the six months ended July 29, 2017 and July 30, 2016, respectively. The operating cash flow increase is partially due to an increase in accounts payable driven by changes in vendor payment terms during the first half of 2017 and improved inventory turnover, compared to a decrease in accounts payable during the first half of 2016. The operating cash flow increase is also partially due to the payment of approximately \$500 million of taxes during the first quarter of 2016, primarily related to the December 2015 sale of our pharmacy and clinic businesses (Pharmacy Transaction).

| Earnings Per Share from Continuing Operations | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|------------------|--------|------------------|------------------|---------|
| | July 29, 2017 | July 30, 2016 | Change | July 29, 2017 | July 30, 2016 | Change |
| GAAP diluted earnings per share | \$ 1.22 | \$ 1.07 | 14.2 % | \$ 2.44 | \$ 2.08 | 17.1 % |
| Adjustments | 0.01 | 0.16 | | — | 0.43 | |
| Adjusted diluted earnings per share | \$ 1.23 | \$ 1.23 | 0.1 % | \$ 2.43 | \$ 2.51 | (3.2)% |

Note: Amounts may not foot due to rounding. Adjusted diluted earnings per share from continuing operations (Adjusted EPS), a non-GAAP metric, excludes the impact of certain items not related to our routine retail operations. Management believes that Adjusted EPS is meaningful to provide period-to-period comparisons of our operating results. A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 16.

We report after-tax return on invested capital (ROIC) from continuing operations because we believe ROIC provides a meaningful measure of the effectiveness of our capital allocation over time. For the trailing twelve months ended July 29, 2017, ROIC was 13.8 percent, compared with 15.8 percent for the trailing twelve months ended July 30, 2016. Excluding the net gain on the Pharmacy Transaction, ROIC was 13.7 percent for the trailing twelve months ended July 30, 2016. A reconciliation of ROIC is provided on page 17.

Analysis of Results of Operations

Segment Results

| (dollars in millions) | Three Months Ended | | | Six Months Ended | | |
|-----------------------|--------------------|------------------|--------|------------------|------------------|--------|
| | July 29, 2017 | July 30, 2016 | Change | July 29, 2017 | July 30, 2016 | Change |
| Sales | \$ 16,429 | \$ 16,169 | 1.6 % | \$ 32,446 | \$ 32,364 | 0.3 % |

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| | | | | | | |
|--|----------|----------|----------|----------|----------|----------|
| Cost of sales ^(a) | 11,419 | 11,172 | 2.2 | 22,618 | 22,421 | 0.9 |
| Gross margin | 5,010 | 4,997 | 0.3 | 9,828 | 9,943 | (1.2) |
| SG&A expenses ^(b) | 3,382 | 3,256 | 3.9 | 6,515 | 6,398 | 1.8 |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) ^(a) | 514 | 500 | 2.8 | 1,022 | 981 | 4.1 |
| EBIT | \$ 1,114 | \$ 1,241 | (10.3)% | \$ 2,291 | \$ 2,564 | (10.6)% |

Note: See Note 13 of our Financial Statements for a reconciliation of our segment results to earnings before income taxes.

^(a) Refer to Note 3 of the Financial Statements for information about a reclassification of supply chain-related depreciation expense to cost of sales.

(b) SG&A includes \$172 million and \$342 million net profit-sharing income under our credit card program agreement for the three and six months ended July 29, 2017, respectively, and \$163 million and \$321 million for the three and six months ended July 30, 2016, respectively.

| Rate Analysis | Three Months Ended | | Six Months Ended | | |
|---|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Gross margin rate ^(a) | 30.5 | % 30.9 | % 30.3 | % 30.7 | % |
| SG&A expense rate | 20.6 | 20.1 | 20.1 | 19.8 | |
| Depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate ^(a) | 3.1 | 3.1 | 3.2 | 3.0 | |
| EBIT margin rate | 6.8 | 7.7 | 7.1 | 7.9 | |

Note: Rate analysis metrics are computed by dividing the applicable amount by sales.

^(a) Reclassifying supply chain-related depreciation expense to cost of sales reduced the gross margin and depreciation and amortization rates by (0.4) percent for all periods presented.

Sales

Sales include all merchandise sales, net of expected returns, and gift card breakage. Digital channel sales include all sales initiated through mobile applications and our conventional websites. Digital channel sales may be fulfilled through our distribution centers, our vendors, or our stores.

| Sales by Channel | Three Months Ended | | Six Months Ended | | |
|------------------|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Stores | 95.7 | % 96.7 | % 95.7 | % 96.6 | % |
| Digital | 4.3 | 3.3 | 4.3 | 3.4 | |
| Total | 100 | % 100 | % 100 | % 100 | % |

| Sales by Product Category | Three Months Ended | | Six Months Ended | | |
|-------------------------------------|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Household essentials ^(a) | 25 | % 25 | % 25 | % 25 | % |
| Apparel and accessories | 22 | 22 | 21 | 21 | |
| Food and beverage ^(a) | 19 | 20 | 21 | 21 | |
| Home furnishings and décor | 19 | 19 | 18 | 18 | |
| Hardlines | 15 | 14 | 15 | 15 | |
| Total | 100 | % 100 | % 100 | % 100 | % |

^(a) For all periods presented, pet supplies, which represented approximately 2 percent of total sales, has been reclassified from food and beverage to household essentials.

Comparable sales is a measure that highlights the performance of our stores and digital channels by measuring the change in sales for a period over the comparable, prior-year period of equivalent length. Comparable sales include all sales, except sales from stores open less than 13 months, digital acquisitions we have owned less than 13 months, stores that have been closed, and digital acquisitions that we no longer operate. Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies.

| Comparable Sales | Three Months Ended | | Six Months Ended | | |
|---------------------------------------|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Comparable sales change | 1.3 | % (1.1) | % — | % — | % |
| Drivers of change in comparable sales | | | | | |
| Number of transactions | 2.1 | (2.2) | 0.6 | (0.9) | |
| Average transaction amount | (0.7) | 1.1 | (0.7) | 1.0 | |

Note: Amounts may not foot due to rounding.

| Contribution to Comparable Sales Change | Three Months Ended | | Six Months Ended | | |
|---|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Stores channel comparable sales change | 0.2 | % (1.6) | % (1.0) | % (0.5) | % |
| Digital channel contribution to comparable sales change | 1.1 | 0.5 | 0.9 | 0.6 | |
| Total comparable sales change | 1.3 | % (1.1) | % — | % — | % |

Note: Amounts may not foot due to rounding.

The collective interaction of a broad array of macroeconomic, competitive, and consumer behavioral factors, as well as sales mix, and transfer of sales to new stores makes further analysis of sales metrics infeasible.

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

| REDcard Penetration | Three Months Ended | | Six Months Ended | | |
|---------------------------|--------------------|------------------|------------------|------------------|---|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 | |
| Target Debit Card | 13.0 | % 12.7 | % 13.2 | % 12.9 | % |
| Target Credit Cards | 11.6 | 11.1 | 11.3 | 10.7 | |
| Total REDcard Penetration | 24.6 | % 23.9 | % 24.5 | % 23.6 | % |

Note: Amounts may not foot due to rounding.

Gross Margin Rate

For the three and six months ended July 29, 2017, our gross margin rate was 30.5 percent 30.3 percent, respectively, compared with 30.9 percent and 30.7 percent in the comparable periods last year. The decrease was due to increased digital fulfillment costs and other items, including impacts of our efforts to improve pricing and promotions.

Selling, General, and Administrative Expense Rate

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For the three and six months ended July 29, 2017, our SG&A expense rate was 20.6 percent and 20.1 percent, respectively, compared to 20.1 percent and 19.8 percent in the comparable periods last year. The increase was primarily due to higher compensation, primarily due to increased bonus expense, and impairment losses resulting from planned or completed store closures and supply chain changes, partially offset by cost savings driven by efficiency in our technology operations and, for the second quarter, timing of marketing campaigns.

Store Data

| Change in Number of Stores | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|---------------|------------------|---------------|
| | July 29, 2017 | July 30, 2016 | July 29, 2017 | July 30, 2016 |
| Beginning store count | 1,807 | 1,793 | 1,802 | 1,792 |
| Opened | 9 | 5 | 14 | 6 |
| Closed | — | (1) | — | (1) |
| Ending store count | 1,816 | 1,797 | 1,816 | 1,797 |

| Number of Stores and Retail Square Feet | Number of Stores | | | Retail Square Feet ^(a) | | |
|---|------------------|------------------|---------------|-----------------------------------|------------------|---------------|
| | July 29, 2017 | January 28, 2017 | July 30, 2016 | July 29, 2017 | January 28, 2017 | July 30, 2016 |
| 170,000 or more sq. ft. | 276 | 276 | 278 | 49,328 | 49,328 | 49,688 |
| 50,000 to 169,999 sq. ft. | 1,506 | 1,504 | 1,505 | 189,796 | 189,620 | 189,732 |
| 49,999 or less sq. ft. | 34 | 22 | 14 | 958 | 554 | 300 |
| Total | 1,816 | 1,802 | 1,797 | 240,082 | 239,502 | 239,720 |

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

Other Performance Factors

Net Interest Expense

Net interest expense from continuing operations was \$135 million and \$278 million for the three and six months ended July 29, 2017, respectively, compared to \$307 million and \$722 million for the three and six months ended July 30, 2016, respectively. Net interest expense for the three and six months ended July 30, 2016 included a loss on early retirement of debt of \$161 million and \$422 million, respectively.

Provision for Income Taxes

Our effective income tax rate from continuing operations for the three and six months ended July 29, 2017 was 31.4 percent and 33.0 percent, respectively, compared with 33.6 percent and 32.6 percent for the three and six months ended July 30, 2016, respectively. For the three months ended July 29, 2017, the decrease was due to the net tax effect of our global sourcing operations. For the six months ended July 29, 2017, the increase was due to the recognition of \$18 million of excess tax benefits related to share-based payments for the six months ended July 30, 2016, offset by the net tax effect of our global sourcing operations and other items, none of which are individually significant.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

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

| (millions, except per share data) | Three Months Ended | | | |
|--|----------------------|----------------------|----------------------|-------------------------|
| | July 29, 2017 | | July 30, 2016 | |
| | Net Pretax Tax | Per Share Amounts | Net Pretax Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | \$ 1.22 | | \$ 1.07 |
| Adjustments | | | | |
| Loss on early retirement of debt | \$— | — | \$161 | \$98 |
| Pharmacy Transaction-related costs | — | — | (7) | (4) |
| Income tax matters ^(a) | —5 | 0.01 | — | — |
| Adjusted diluted earnings per share from continuing operations | | \$ 1.23 | | \$ 1.23 |

| (millions, except per share data) | Six Months Ended | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | July 29, 2017 | | July 30, 2016 | |
| | Net Pretax Tax | Per Share Amounts | Net Pretax Tax | Per Share Amounts |
| GAAP diluted earnings per share from continuing operations | | \$ 2.44 | | \$ 2.08 |
| Adjustments | | | | |
| Loss on early retirement of debt | \$— | — | \$422 | \$257 |
| Pharmacy Transaction-related costs | — | — | 4 | 3 |
| Income tax matters ^(a) | —(2) | — | — | (3) |
| Adjusted diluted earnings per share from continuing operations | | \$ 2.43 | | \$ 2.51 |

Note: Amounts may not foot due to rounding.

^(a) Represents expense/(income) from income tax matters not related to current period operations.

We have also disclosed after-tax ROIC, which is a ratio based on GAAP information, with the exception of adjustments made to capitalize operating leases. Operating leases are capitalized as part of the ROIC calculation to control for differences in capital structure between us and our competitors. We believe this metric provides a meaningful measure of the effectiveness of our capital allocation over time. Other companies may calculate ROIC differently than we do, limiting the usefulness of the measure for comparisons with other companies.

After-Tax
Return on
Invested Capital

Trailing Twelve
Numerator
Months

(dollars
July 29, July 30,
in
2017 2016
millions)

Earnings
from
continuing
operations
before
\$4,700 \$ 5,605
interest
expense
and
income
taxes

+
Operating
lease 77
interest
(a)(b)

Adjusted
earnings
from
continuing
operations
4,776 5,682
interest
expense
and
income
taxes

-
Income
1,571 1,791
taxes
(c)

\$3,205 \$ 3,891
operating
profit
after

taxes

| Denominator (dollars in millions) | July 29, 2017 | July 30, 2016 | August 1, 2015 |
|--|------------------|------------------|-------------------|
| Current portion of long-term debt and other borrowings | \$ 1,354 | \$ 647 | \$ 841 |
| + Noncurrent portion of long-term debt | 10,892 | 12,063 | 11,817 |
| + Shareholders' equity | 11,098 | 11,577 | 13,942 |
| + Capitalized operating lease obligations ^{(b)(d)} | 1,257 | 1,274 | 1,497 |
| - Cash and cash equivalents | 2,291 | 1,480 | 2,742 |
| - Net assets of discontinued operations | 10 | 80 | 217 |
| Invested capital | \$22,300 | \$24,001 | \$ 25,138 |
| Average invested capital ^(e) | \$23,150 | \$24,569 | |
| After-tax return on invested capital ^(f) | 13.8 % | 15.8 % | |

^(a) Represents the add-back to operating income to reflect the hypothetical interest expense we would incur if the property under our operating leases were owned or accounted for as capital leases, using eight times our trailing twelve months rent expense and an estimated interest rate of six percent.

^(b) See the following Reconciliation of Capitalized Operating Leases table for the adjustments to our GAAP total rent expense to obtain the hypothetical capitalization of operating leases and related operating lease interest.

^(c) Calculated using the effective tax rate for continuing operations, which was 32.9 percent and 31.5 percent for the trailing twelve months ended July 29, 2017 and July 30, 2016, respectively. For the trailing twelve months ended July 29, 2017 and July 30, 2016, includes tax effect of \$1,546 million and \$1,767 million, respectively, related to EBIT and \$25 million and \$24 million, respectively, related to operating lease interest.

^(d) Calculated as eight times our trailing twelve months rent expense.

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

^(f) Excluding the net gain on the Pharmacy Transaction, ROIC was 13.7 percent for the trailing twelve months ended July 30, 2016.

Capitalized operating lease obligations and operating lease interest are not in accordance with, or an alternative for, generally accepted accounting principles in the United States. The most comparable GAAP measure is total rent expense. Capitalized operating lease obligations and operating lease interest should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP.

| | | | |
|---|------------------|------------------|-------------------|
| Reconciliation of Capitalized Operating Leases (dollars in millions) | July 29, 2017 | July 30, 2016 | August 1, 2015 |
| Total rent expense | \$ 157 | \$ 159 | \$ 187 |
| Capitalized operating lease obligations (total rent expense x 8%) | \$ 1,217 | \$ 1,274 | \$ 1,497 |
| Operating lease interest (capitalized operating lease obligations x 6%) | \$ 76 | \$ 77 | n/a |

Analysis of Financial Condition

Liquidity and Capital Resources

Our cash and cash equivalents balance was \$2,291 million at July 29, 2017, compared with \$1,480 million for the same period in 2016. As of July 29, 2017, \$1,387 million of cash and cash equivalents were held at entities located outside the United States and may be subject to taxation if repatriated. Our investment policy is designed to preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place certain dollar limits on our investments in individual funds or instruments.

Capital Allocation

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

Cash Flows

Operating cash flow provided by continuing operations was \$2,866 million for the six months ended July 29, 2017, compared with \$1,396 million for the same period in 2016. The increase is partially due to an increase in accounts payable driven by changes in vendor payment terms during the first half of 2017 and improved inventory turnover, compared to a decrease in accounts payable during the first half of 2016. The operating cash flow increase is also partially due to the payment of approximately \$500 million of taxes during the first quarter of 2016, primarily related to the Pharmacy Transaction. These cash flows, combined with our prior year-end cash position, allowed us to invest in the business, retire \$598 million of debt, pay dividends, and repurchase shares under our share repurchase program.

Share Repurchases

We returned \$296 million and \$601 million to shareholders through share repurchase during the three and six months ended July 29, 2017, respectively, and \$1,350 million and \$2,243 million during the three and six months ended July 30, 2016, respectively. See Part II, Item 2 of this Quarterly Report on Form 10-Q and Note 10 to the Financial Statements for more information.

Dividends

We paid dividends totaling \$331 million (\$0.60 per share) and \$663 million (\$1.20 per share) for the three and six months ended July 29, 2017, respectively, and \$330 million (\$0.56 per share) and \$666 million (\$1.12 per share) for the three and six months ended July 30, 2016, respectively, a per share increase of 7.1 percent. We declared dividends totaling \$343 million (\$0.62 per share) in second quarter 2017, a per share increase of 3.3 percent over the \$346 million (\$0.60 per share) of declared dividends during the second quarter of 2016. We have paid dividends every quarter since our 1967 initial public offering, and it is our intent to continue to do so in the future.

Short-term and Long-term Financing

Our financing strategy is to ensure liquidity and access to capital markets, to maintain a balanced spectrum of debt maturities, and to manage our net exposure to floating interest rate volatility. Within these parameters, we seek to minimize our borrowing costs. Our ability to access the long-term debt and commercial paper markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. As of July 29, 2017 our credit ratings were as follows:

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

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

We have additional liquidity through a committed \$2.5 billion revolving credit facility obtained through a group of banks in October 2016, which expires in October 2021. This unsecured revolving credit facility replaced a \$2.25 billion unsecured revolving credit facility that was scheduled to expire in October 2018. No balances were outstanding under either credit facility at any time during 2017 or 2016.

Most of our long-term debt obligations contain covenants related to secured debt levels. In addition to a secured debt level covenant, our credit facility also contains a debt leverage covenant. We are, and expect to remain, in compliance with these covenants. Additionally, at July 29, 2017, no notes or debentures contained provisions requiring acceleration of payment upon a credit rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a matter of months of each other we experience both (i) a change in control; and (ii) our long-term debt ratings are either reduced and the resulting rating is noninvestment grade, or our long-term debt ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is noninvestment grade.

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

Contractual Obligations and Commitments

As of the date of this report, there were no material changes to our contractual obligations and commitments outside the ordinary course of business since January 28, 2017 as reported in our 2016 Form 10-K.

New Accounting Pronouncements

Refer to Note 2, Note 9, and Note 11 of the Financial Statements for a description of new accounting pronouncements related to revenues, leases, and pension benefits, respectively. We do not expect any other recently issued accounting pronouncements will have a material effect on our financial statements.

Forward-Looking Statements

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

All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our

actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A of our Form 10-K for the fiscal year ended January 28, 2017, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Form 10-K for the fiscal year ended January 28, 2017.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The following update to a previously reported proceeding is being reported pursuant to Item 103 of Regulation S-K:

On July 31, 2017, the United States District Court for the District of Minnesota issued a combined order dismissing the Federal Securities Law Class Actions and the ERISA Class Actions relating to certain prior disclosures by Target about its expansion of retail operations into Canada. Both the Federal Securities Law Class Actions and ERISA Class Actions were previously described in Target's annual report on Form 10-K for the fiscal year ended January 28, 2017.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

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

On September 20, 2016, our Board of Directors authorized a new \$5 billion share repurchase program. We began repurchasing shares under this new authorization during the fourth quarter of 2016. There is no stated expiration for the share repurchase program. Under the program, we have repurchased 14.4 million shares of common stock through July 29, 2017, at an average price of \$60.28, for a total investment of \$0.9 billion. The table below presents information with respect to Target common stock purchases made during the three months ended July 29, 2017, by Target or any "affiliated purchaser" of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs |
|--|----------------------------------|------------------------------|---|--|
| April 30, 2017 through May 27, 2017 | — | \$ — | — | \$ 4,430,328,641 |
| Open market and privately negotiated purchases | — | — | — | — |
| May 28, 2017 through July 1, 2017 | 5,458,026 | 52.47 | 5,458,026 | 4,143,941,970 |
| Open market and privately negotiated purchases | 5,458,026 | 52.47 | 5,458,026 | 4,143,941,970 |
| July 2, 2017 through July 29, 2017 | 190,310 | 52.00 | 190,310 | 4,134,046,448 |
| Open market and privately negotiated purchases | 190,310 | 52.00 | 190,310 | 4,134,046,448 |
| Total | 5,648,336 | \$ 52.45 | 5,648,336 | \$ 4,134,046,448 |

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

- (3)A Amended and Restated Articles of Incorporation (as amended through June 9, 2010)⁽¹⁾
- (3)B Bylaws (as amended through November 11, 2015)⁽²⁾
- (10)C Amended and Restated Target Corporation 2011 Long-Term Incentive Plan (as amended and restated effective September 1, 2017)
- (10)L Target Corporation Officer Income Continuance Policy Statement (as amended and restated effective September 1, 2017)
- (10)KK Target Corporation Executive Officer Cash Incentive Plan⁽³⁾
- (12) Statements of Computations of Ratios of Earnings to Fixed Charges
- (31)A Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31)B Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32)A Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
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- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

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

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

(3) Incorporated by reference to Exhibit (10)KK to the Registrant's Form 8-K Report filed June 15, 2017.

SIGNATURE

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

TARGET CORPORATION

Dated: August 21, 2017 By: /s/ Cathy R. Smith
Cathy R. Smith
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

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

EXHIBIT INDEX

| Exhibit | Description | Manner of Filing |
|---------|--|---------------------------|
| (3)A | Amended and Restated Articles of Incorporation (as amended through June 9, 2010) | Incorporated by Reference |
| (3)B | Bylaws (as amended through November 11, 2015) | Incorporated by Reference |
| (10)C | Amended and Restated Target Corporation 2011 Long-Term Incentive Plan (as amended and restated effective September 1, 2017) | Filed Electronically |
| (10)L | Target Corporation Officer Income Continuance Policy Statement (as amended and restated effective September 1, 2017) | Filed Electronically |
| (10)KK | Target Corporation Executive Officer Cash Incentive Plan | Incorporated by Reference |
| (12) | Statements of Computations of Ratios of Earnings to Fixed Charges | Filed Electronically |
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