CONVERSATIONS WITH MIKE MILKEN

Brian Cornell

Board Chairman and CEO, Target

September 18, 2020

Mike Milken: Brian. Thank you for joining me today.

Brian Cornell: Good to be with you, Mike.

I have cherished our friendship over the years, and I have seen you in the good times and in extremely challenging times in your career. And I'm not sure any of us were totally prepared for the assignment that the world has given us in the last six months. I know you focused on three or four key areas. Take me back to February of this year and the areas that you first focused on.

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Our year started out with us focusing on the pandemic, but really focused on the implications that was going to have on our business based on the pandemic in China and a big focus on supply chain and understanding how we were going to have to adapt to some of the supply chain constraints. On March 3rd of this year we had our annual investor conference and I was on a plane heading to New York when we suddenly realized the world was starting to change, and it probably wasn't the right thing to do to have several hundred investors and analysts with us in New York. So we went back to Minneapolis,

This interview has been lightly edited for clarity and readability.

decided we were going to hold our annual investor conference remotely for the first time, and spent several hours talking about our strategy, our view of the consumer landscape, our plans for 2020.

When we hung up later that day, we started to hear about the spread of the pandemic in Seattle, and our first reaction was how do we take care of our team? Because if we were going to be deemed as an essential retailer, providing essential services, we recognized that first thing we had to do was take care of our team if they were going to serve America. We started to think about how we adjust, how we operate, how we service the guests, steps we had to take to make sure that our stores were going to be safe throughout the pandemic. So we elevated our focus on cleaning and sanitation. We quickly recognized that we had to start thinking about putting signs in place around social distancing, and starting to think about how we stood up Plexiglass shields at our check lanes, and really try to minimize the contact between our team and consumers.

"During my first quarter call with my board, I talked about the fact that in the past I would be talking about long-range plans; three years out, four years out, five years out. I said our new long-term horizon is the next four weeks because things are changing so quickly. So, we've had to learn to be much more flexible and adaptable."

But the big investment was for our team, putting premium pay in place of $2 an hour for our supply chain team and our store teams, making sure for anyone who was 65 or older, had a preexisting condition, might be pregnant, give them access to four weeks of paid leave. Put back-up care in case for people who had children who are now at home as opposed to in a classroom. So they had that kind of support. But we really started to quickly mobilize the organization around safety and being really agile and really flexible and adjusting to the changing needs in the marketplace. But we didn't have a playbook, so we had to continue to update it each and every day.

You started at Seagram's. You went to Tropicana. PepsiCo. You went to Safeway and tried to transform what a food retailer was. You went to Michael's stores. You then went to Walmart for a number of years. You then went back to PepsiCo and 30 years after you started at Seagram's you arrived at Target. And when I reflect on what Target is today, you're focused on the guest, focused on building a team and culture, focused on your core businesses. And along the way you had to make some difficult decisions in getting those messages across.

Mike, I think my business career really started in 2014 when I joined Target, and everything before that was just preparation for this role. I walked in in 2014 to a very different company: we were recovering from the data breach; we had a failing business in Canada, but we also had a business in the U.S. that had been losing momentum. I had to step back and work with the team to understand the consumer, our guests, understand what was happening with competition. We had to make some tough choices along the way to really focus on our core business in the U.S., recognizing that shortly after I arrived in 2014 we were going to have to make a decision to close a Canadian business that we had just entered several years earlier; say goodbye to over 18,000 team members we had hired, shut down over 130 stores, distribution centers, take a massive write-off. Thinking about the implications of that, it was probably the toughest decision in my career at that point. But when I look at our Q2 2020 results, despite the challenges of the pandemic, I would tell you Mike, we wouldn't be where we are today had we not as a team made the difficult decision to exit Canada and focus our energy, our capital on the U.S. and restoring momentum in our U.S. business. But there's lots of chapters along the way, and we had to become much more externally at an understand what the purpose of the company was all about for our team, and had to build and invest in operating and technology capabilities to adapt to the new competitive environment in the U.S.

> ***"From the bottom up we've made a commitment to diversity and inclusion. Of the 1,900 stores we run in the United States, over half are led by female store directors, over a third are diverse, and we build that pipeline in the organization."***

Brian, before we leave Canada, I really want to go back if I could, to why you talked about it being a difficult decision. One of the many companies I had a chance to finance was MCI and Bill McGowan. He had built this company from scratch and it ran up to 50,000, 60,000 employees, and he had a difficult period in the mid-1980s eventually had to reduce by 15 percent or 20 percent his headcount. But every single one of those employees have been hired on his watch, and his comment was that they had to refocus in order to grow again. And I think not everyone on this call has been a CEO or had to make decisions. What I have found over more than 50 years is most CEOs put good money after bad, if they need to and were not willing to reduce revenue, make the company smaller. As you said, you're going to close 130 stores, you're going to lose billions of dollars in revenue; it is a difficult decision and yourself in building culture and a covenant in many ways with your team workers, the people that work for Target. I just want our listeners to understand why you said at that time, it was the most difficult decision you could make. But you needed to get Target on track, grow focused on your core business, and you made that decision.

What does the new CEO Mike think about coming in and after only a few months, your first big decision is to close something down. When I first joined the company back in July of 2014, I knew that Canada was a challenge, but I thought it would be part of the turnaround. I thought we'd be sitting here today in 2020 talking about how, you know, that was also part of how we turned around the company. But recognizing that at that point we didn't have a single store that was cash-flow positive, it was going to take billions of dollars of additional investment in technology and supply chain and looking at the choices that we had to make between doubling down on our us business or trying to manage a turnaround in the U.S. while also turning around a failing business in Canada. We had to make the right choice for the team, for the company and for shareholders.

But while it was crystal clear that was the right thing to do, it still didn't make it any easier because people were involved. And it was a very difficult decision for those that had been part of building that Canadian entry. But ultimately we knew it was the right thing for the future of the company, and we had to make a very difficult decision early on in my tenure. But as I said before, I don't think we'd be here today had we not put all of our focus as a company around our U.S. business.

"In the second quarter, despite the pandemic, despite the fact that millions of Americans were avoiding contact in public, our stores grew by almost 11 percent. And I think they grew because we had invested in safety, we had built trust with American shoppers, with our guests."

So Brian, the company is headquartered in Minneapolis and now it's being challenged by racial justice and other issues. Let's step back and talk about what you were attempting to build in culture – upward mobility for your employees, a diverse management team, diverse workforce – and how that has stood you well during these two crises of 2020.

Mike, I think our focus on purpose has been a driving factor behind our success during the pandemic. Over the last few years we've spent a lot of time talking about the company purpose. For our team, we wake up every day thinking about all those diverse families across the country that we serve and how do we make sure that even during a difficult time we continue to bring them that little bit of joy, and that maybe just coming out to the parking lot when they pop their trunk open and putting that order in their trunk and letting them drive home knowing they have those essential items that they need every day; a toy for their children, the different food and beverage products that they need, and just give them that assurance and that little bit of joy that they know Target's there to take care of them.

I also include those almost 400,000 team members. How do we make sure we're taking care of them? We're investing in them, we're mentoring and developing great talent in the organization, and that hasn't stopped during the pandemic. We continue to focus each and every day on investing in our team, investing in development of future leaders, and we haven't lost focus for even a moment on the purpose of our company during the challenging times that we've faced in the last six months.

So Brian, you hear this term, 'we had plans and then life gets in the way.' So you built this focus around your team members, upward mobility in many ways, maybe as much or more than any other company. How did you adapt with 400,000 team members to what I would call life getting in the way for each of them?

Mike, we start a lot of time making sure that we were really clear about priorities. We put a real emphasis on communication almost every day, making sure we provided updates and insights for our team. We talked a lot about the importance of resilience and perhaps more than anything else, we talked a lot about empathy and really understanding some of the challenges that our team was facing. I look at my leadership team today at Target; I've got 12 direct reports; half are women, 25 percent of the team is diverse, many of them have children who are now being educated at home. How do we make sure that we have the empathy to understand that we're working remotely? We've all had to learn how to work with Zoom, their children are sitting there saying, you know, 'Mom, when are you getting off that next Zoom call? And I need help with my math project.' So we've had to be much more empathetic and understand the challenges that our teams are facing at headquarters, in our stores. We put a big premium on being much more flexible and adaptable.

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During my first quarter call with my board, I talked about the fact that in the past I would be talking about long-range plans; three years out, four years out, five years out. I said our new long-term horizon is the next four weeks because things are changing so quickly. So, we've had to learn to be much more flexible and adaptable, understand the changes in the environment, but we've still put a focus on making sure we communicate with our teams regularly, put a focus on resilience and energy management. But I think as an organization, we've become more empathetic. I think we've become more approachable, more authentic. I think people realize that now there is more than just Target in their lives, and we've got to make sure we're taking care of our team each and every day.

Brian, there are many companies that have diverse boards and you obviously are one of them, but what strikes me so much about Target, and you spoke about it where half your direct reports are women and 25 percent of your senior management you would put in a diversity area. But we have seen quite often as those companies that have tried to focus on diversity, start with diverse internships, but something happens along the way and as they move up to store managers or move up to division managers, the diversity starts to melt away. What have you done that's so unique versus other companies in making sure from the bottom to the top that the people running this company long before the social-justice issues of this year that people are responding to, that the company was run and built in this manner.

We always start with why it's so important. And for us, we service all of America and we need a workforce and a leadership team that reflects the consumer and the customer we serve. So we really believe that when you have a team that reflects the consumer you serve, you're going to deliver better results. And I think our organization understands why that's so important, why we need to have an organization that reflects the millions and millions of guests we serve each and every day. From the bottom up we've made a commitment to diversity and inclusion. Of the 1,900 stores we run in the United States, over half are led by female store directors, over a third are diverse, and we build that pipeline in the organization. And it's reflected in my officer team, my leadership team and our board. But we've got more work to do in that space.

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As a reaction to what we've seen recently and some of the racial equity challenges we're facing in America, we've elevated our focus on Black families and Black leaders in our organization to make sure that we're doing even more in that space. Coming out of what unfortunately happened on May 25th with the murder of George Lloyd in Minneapolis, we created our own committee. We call it the Reach Committee and it's focused on racial equity and the changes we need to make at Target, focusing on our own team, on our guests, what we can do in the communities we serve around the country and how we've properly engage from a civic standpoint and a policy standpoint on a national level. So despite our commitment to DNI that's been in place for years and years, we use this as that moment where we can even elevate our focus even further with Black Americans across the country and do more with our team to make sure we're attracting and developing Black talent; more with our guests to make sure that we're providing them the right products; and we're working with new Black vendors that could be part of our Target organization; doing even more in the local community; and then understanding where we can play a role at the national level. I personally got involved with the Business Roundtable, their subcommittee focused on racial equity and police reform, to continue to think about ways that we can make a difference at Target.

When you talk about what occurred in Minneapolis, your hometown for Target, and the resulting effects, to my knowledge more than 200 stores of your 1,900 sustained some damage. How did the company respond?

Our first area of focus was taking care of our team and the safety of our team members. So we quickly pulled our organization together and said, 'let's make sure we're shutting down our stores in these challenged markets where making sure we know where our team members are and ensuring their safety.' But quickly after the violence, our focus shifted to how do we get these stores back up and running to support those families in need in the neighborhoods that we serve? One of my proudest moments is how quickly our teams came together to restore some of those stores that were heavily damaged.

We had two stores in Philadelphia that were badly damaged, completely looted. Unfortunately, ceilings were ripped apart; walls were broken; product, was all across the floors of these stores. Well, the next day our teams came back together and they started putting the other plans that rebuild those stores to make sure that we could be up and running as quickly as we could. And in some cases, like within two weeks stores that have been completely destroyed, were back up and running. And Philadelphia is that great example of how these two stores came back together because they knew they were providing essential services for that local community.

"When I look at our Q2 2020 results, despite the challenges of the pandemic, I would tell you Mike, we wouldn't be where we are today had we not as a team made the difficult decision to exit Canada and focus our energy and our capital on the U.S. It was a very difficult decision for those that had been part of building that Canadian entry, but ultimately we knew it was the right thing for the future of the company."

And that's what I take so much pride in; our team saying, all right, in this unusual time, when they're facing a pandemic, their kids are at home not in school, they're seeing protests and violence take place in their neighborhoods, but their first response was how do we get that up and running to take care of those consumers who depend on Target each and every day.

So Brian, Target stock hit an all-time high in August of 2020. When you first arrived the company and an equity value of around $30 billion, today $75 billion. You've increased the value of the company substantially.

Eight years, we've never had a quarter where we grew over 24 percent. Our digital business grew almost 200 percent because we were providing the same-day contact, free services, like pick-up and drive-up or having our shipped shoppers bring something to your home. In the second quarter, despite the pandemic, despite the fact that millions of Americans were avoiding contact in public, our stores grew by almost 11 percent. And I think they grew because we had invested in safety, we had built trust with American shoppers with our guests, and we've never had a quarter like that. But it wasn't because we had unique insights, it was because we were focused on taking care of our team, servicing America, being true to our purpose and culture, and trying to make sure we were doing the right things each and every day to respond to the needs of Americas. So it's a wonderful story, but again, there was no plan for this.

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You arrive at Target 2014, you're now competing against a company called Amazon, which today is one of the two most valuable companies or three most valuable companies in the world. And maybe Target didn't think of itself as a digital company. I remember, I think it was three or four months after you arrived you created the chief data analytic officer position at the company. And when I think of the 24 percent growth, it's unbelievable for a large company to be able to grow at that rate, even if their digital is growing at more than 100 percent. How did Target become a data digital company to deal with this challenge?

When I think about our recent success, it really is a byproduct of investments we've been making for years now in a very differentiated strategy. While digital is critically important, we've taken a very different approach to building our company. Go back to my investor conference in February of 2017. That morning we announced that at a time when people were focused almost every single moment on digital, we were going to invest billions of dollars to remodel stores, to build new small-format stores. We were going to invest in using our stores as fulfillment hubs as opposed to building distribution centers upstream. We were going to use the power of 1,900 stores as mini-fulfillment centers. We made a very different set of decisions then, using our stores as the center of our strategy. I made a commitment we were going to get to a starting minimum wage of $15 by 2020. It's something we actually put in place in July of this year.

So the results that we've seen are a byproduct of the investments we made in our team, in remodeling and reinventing our stores, in opening up new, small formats in urban centers and on college campuses, investing in our team, and a huge investment in technology; in leveraging all of the data and the transactional insights we have. We've stood up a center in Sunnyvale that's focused on data science and machine learning and AI, and those teams have been working for years to advance our understanding of the guests, making better decisions.

So, all those elements have served us well during the pandemic. One of my challenges for the organization was, how do we become the easiest place to shop in America? Well, with our digital business growing by over 200 percent and things like drive-up growing by 700 percent%, our ship business grew by 350 percent. Even our pickup business, which has been in place for over five years now, grew by 60 percent. That ease and convenience is served us well during the pandemic. But those investments in team and technology, in building a digital business that just back in 2015 we talked about getting to 3 percent penetration. Now 17 percent of our business comes from digital, but those stores still play an essential role.

When I first got announced that we were going to go invest a billion dollars in increased wages and benefits for our team, provide them with that premium pay during the pandemic, take our starting minimum wage to $15 in July, provide four weeks of paid leave for anyone who was over 65 or had a preexisting condition – there were a lot of investors that were questioning that investment. But I make no apologies for investing in our team during the pandemic, and I think the results that we delivered in the second quarter, the results we deliver throughout the year, are a bright byproduct of making the right investments in our team so they could take care of America during the pandemic.

Not everyone agreed with your idea to invest in bricks and mortar. I think the stock hit close to 50. So the stock is more than tripled in three years and the performance that you've talked about recently during all of these crises was built over a long period of time. No matter what the difficulties, Target has responded because of the abilities of the team that you've created and your investment in that team has paid off here in 2020, a year of multiple crises. I just want to thank you for joining us today and point out that the most valuable asset at Target is not your stores and not your merchandise and not everything that appears on the balance sheet, but the management team you've assembled, their ability and the dedication to the company that both your guests and teammates make. So, thank you all the best to you and your family.

Thanks, Mike.