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Company Summary

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CORPORATE PARTICIPANTS

A. Christina Hennington *Target Corporation - Executive VP & Chief Growth Officer*

Brian C. Cornell *Target Corporation - Chairman of the Board & CEO*

John Hulbert *Target Corporation - VP of IR*

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

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

CONFERENCE CALL PARTICIPANTS

Katharine Amanda McShane *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

Michael Lasser *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Oliver Chen *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Rupesh Dhinoj Parikh *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation's Second Quarter Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, August 16, 2023.

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

John Hulbert - *Target Corporation - VP of IR*

Good morning, everyone, and thank you for joining us on our Second Quarter 2023 Earnings Conference Call.

On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Christina Hennington, Chief Growth Officer; John Mulligan, Chief Operating Officer; and Michael Fiddelke, Chief Financial Officer. In a few moments, Brian, Christina, John and Michael will provide their insights on our second quarter performance, along with our outlook and priorities for the remainder of the year. Following their remarks, we'll open the phone lines for a question-and-answer session.

This morning, we're joined on this conference call by investors and others who are listening to our comments via webcast. Following the call, Michael and I will be available to answer your follow-up questions.

And finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, including those described in this morning's earnings press release and in our most recently filed 10-K.

Also in these remarks, we refer to non-GAAP financial measures, including adjusted earnings per share. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, which is posted on our Investor Relations website.

With that, I'll turn it over to Brian for his thoughts on the second quarter and his priorities for the remainder of the year. Brian?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Thanks, John, and good morning, everyone. In the second quarter, our team and our business model showed remarkable resilience in the face of multiple headwinds in the external environment. While these headwinds have led to a temporary slowdown in the pace of our business, that doesn't mean our team is standing still. Throughout the company, our team remains focused on staying agile and flexible as we continue to serve our guests and to listen carefully to them in this very dynamic environment.

And we're fortunate to have a business model that's inherently flexible by design. We offer a balanced multi-category assortment that's focused on our guests' wants and needs, allowing us to stay relevant in any environment and to quickly pivot as our guest priorities change. And our unique stores as hubs model, a concept we pioneered in the retail industry, allows us to serve our guests quickly, flexibly and reliably on every shopping journey, whether it takes place in a store or on a digital device.

By continuously listening to, learning from and engaging with our guests and then refining our playbook with their insights, we'll continue to achieve our purpose of delivering everyday joy for all the families we serve while reinforcing our strong culture of caring, growing and winning together.

As you'll recall, in the first half of 2022, we were faced with excess inventory, driven by a rapid change in consumer spending patterns. In the face of that challenge, the team took important steps a year ago, allowing us to quickly adjust our inventory down to the proper level. Those critical decisions have allowed our team to operate efficiently while focusing on serving our guests. They've enabled the presentation of fresh, seasonally appropriate assortments throughout the year and provided the flexibility to lean into share opportunities in key seasons, like Back-to-School and Back-to-College. And importantly, last year's inventory actions laid the groundwork for the recovery in profitability we've achieved so far this year.

Our team also played a critical role in our second quarter profit performance. As we began to see softening sales trends early in the quarter, the team in our stores and supply chain responded with speed and agility. Their discipline, along with ongoing efficiency efforts, allowed our profit performance to exceed our original expectations despite a meaningful shortfall on the top line.

More specifically, for the quarter just ended, operating income expanded by more than \$800 million compared with a year ago. And despite the fact we've experienced more than a percentage point of cumulative profit pressure from higher shrink since 2019, our EPS of \$3.86 through the first half of the year is more than 15% higher than in 2019. While this is encouraging progress, we are confident we'll see further meaningful increases in our profitability over time.

On the top line, Q2 results were below our expectations as comparable sales decreased 5.4%. Within the quarter, comp trends softened from the second half of May into June, before we saw a meaningful recovery in both traffic and comps in July. In the month, we were especially pleased with trends around Independence Day holiday, along with Circle Week, which also resulted in the addition of more than 0.5 million new Target Circle members.

Consistent with recent industry trends, second quarter comps reflected continued growth in our frequency categories, offset by notable softer results in our more discretionary categories. Across channels, sales were strongest in our stores, while results in our digital channel were led by continued growth in our Drive-Up service. Consistent with our stores as hubs strategy, more than 97% of our second quarter sales were fulfilled by our stores.

As we've described for more than a year now, the divergence of sales trends between our frequency and discretionary categories is being driven by multiple cross currents that are affecting the U.S. consumer. These include the impact of inflation in frequency categories, like Food & Beverage and Essentials, causing these categories to absorb a much-higher portion of consumers' budgets. In addition, consumers are choosing to increase spending on services, like leisure travel, entertainment and food away from home, putting near-term pressure on discretionary products. And finally, the rollback of government efforts to support consumers during the pandemic, including stimulus payments, enhanced child care tax credits and the suspension of student loan payments, presents an ongoing headwind that consumers continue to manage.

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Beyond these factors in the second quarter, many of our store team members faced a negative guest reaction to our Pride assortment. As you know, we have featured a Pride assortment for more than a decade. However, after the launch of the assortment this year, members of our team began experiencing threats and aggressive actions that affected their sense of safety and well being while at work.

I want to make it clear: We denounce violence and hate of all kinds, and the safety our team and our guests is our top priority. So to protect the team in the face of these threatening circumstances, we quickly made changes, including the removal of items that were at the center of the most significant confrontational behavior.

Pride is one of many heritage moments that are important to our guests and our team, and we'll continue to support these moments in the future. They are just one part of our commitment to support a diverse team, which helps us serve a diverse set of guests. And as we talk to these guests, they consistently tell us that Target is their happy place, somewhere they can go to escape and recharge. So as we navigate an ever-changing operating and social environment, we're committed to staying close to our guests and their expectations of Target.

Specific to Pride and Heritage months, we're focused on building assortments that are celebratory and joyous with wide-ranging relevance, being mindful of timing, placement and presentation, leaning into segmentation and leveraging our digital experience and reconsidering the mix of owned brands, national brands and external partners within these assortments. Our goal is to ensure we continue to celebrate moments that are special to our guests while acknowledging that, every day, for millions of people, they want Target to serve as a refuge in their daily lives.

In addition to these more recent challenges, our team continues to face an unacceptable amount of retail theft and organized retail crime. As you'll hear in more detail from Michael, shrink in the second quarter remained consistent with our expectations, but well above the sustainable level where we expect to operate over time. And unfortunately, safety incidents associated with theft are moving in the wrong direction. During the first 5 months of this year, our stores saw a 120% increase in theft incidents involving violence or threats of violence. As a result, we're continuing to work tirelessly with retail industry groups and community partners to find solutions to promote safety for our store teams and our guests.

Looking ahead, as you'll hear from both Christina and John, our team is focused on moving forward and preparing for the biggest seasons of the year. And given the current consumer and economic backdrop, we've adjusted our guidance for the remainder of the year, consistent with a cautious planning approach that has served us so well during the first half of the year. Against this cautious backdrop, our team is laser-focused on delivering newness, quality and affordability, reinforced by a commitment to retail fundamentals.

Given the rapid growth and the volatility our business has experienced over the last several years, we have an opportunity to refocus our team on 4 key factors that determine where consumers choose to shop: Being reliably in stock; highlighting affordability throughout our assortment, presentation and marketing; leveraging the proximity of our stores to the guests we serve; while ensuring a seamless differentiated, easy and inspiring guest experience on every trip, every day. These areas have always been a source of strength, and we want to ensure we continue to differentiate our experience from our competitors.

Within our merchandising, we'll continue to invest in our industry-leading owned brand portfolio, along with the expansion of key national brand partnerships like Ulta Beauty, Levis, Apple and Disney. We'll focus on deepening the relationship with over 100 million Target Circle members and leveraging the power of our Roundel ad business to integrate relevant offers and promotions throughout the fall. And we'll continue to drive awareness of our industry-leading Drive-Up service and highlight the recent addition of new guest-focused options, including Drive-Up returns and the ability to have a Starbucks beverage delivered with your order.

Of course, we'll also continue to invest in our physical assets to position us for continued future growth. But the bulk of these investments are happening in our stores as we add new locations, complete full store remodels, enhance the efficiency of our same-day services and add new locations for our Ulta Beauty partnership, Disney store concept or enhanced Apple experience.

In the supply chain, we're continuing to invest in upstream replenishment capabilities, along with the expansion of our network of sortation centers, which deliver meaningful savings while increasing the speed of our last-mile delivery.

So now before I turn the call over to Christina, I want to pause and take stock of where our business is today. And I think it's helpful to pull back the lens because 2023 is the fourth year in a row in which the external backdrop has been far different from anything we've ever experienced. Yet today, as a result of our team's consistent efforts to listen, understand and serve our guests, Target is a much different company than it was 4 years ago. We have the right strategy, guest relevance and team to deliver sustainable long-term growth.

Through the first half of 2023, our total revenue of just over \$50 billion was about 39% higher than the \$36 billion we delivered in 2019. This growth reflects significant increases across our entire business in all 5 merchandising categories in both our stores and digital channels and in our Roundel ad business. And this growth reflects an increase in guest engagement, as measured by the number of visits they're making to Target. And today, despite the challenges we faced in recent quarters, the number of guest trips through the first half of 2023 was more than 169 million higher or more than 21% higher than in 2019. Our team delivered this growth during a time of exceptional uncertainty and volatility. I want to end my remarks by acknowledging that accomplishment.

And I also want to recognize the team members in our stores and distribution centers for the way they quickly responded to the recent and unexpected slowdown in our top line sales trends. It's because of their discipline and agility that we've continued to provide an outstanding shopping experience while delivering better-than-expected profitability so far this year. On behalf of all our stakeholders, I want to thank our entire team for their continued extraordinary efforts.

Now I'll turn the call over to Christina.

A. Christina Hennington - Target Corporation - Executive VP & Chief Growth Officer

Thanks, Brian, and good morning, everyone. Despite the multiple headwinds we were faced on the top line, there were a number of things to like in the second quarter. Of the many notable bright spots, our team's agile execution in service of our guests and each other rises to the top.

Consumers continue to face difficult choices with every purchase. Whether managing their budgets in the face of higher prices or planning for resuming student loan payments, our guests are facing multiple ongoing challenges. With inflation rates moderating, however, we've started to see consumer confidence begin to recover from recent lows. And while we're maintaining an appropriately cautious outlook today, we're hopeful that conditions can improve with time. In the meantime, even as consumers continue to spend with caution, our guests continue to embrace newness and seasonally relevant moments, all with an unwavering focus on affordability.

In the second quarter, comparable sales were down 5.4%, softer than our expectations coming into the quarter. Frequency categories continue to grow, partially offsetting the softness we saw in discretionary categories. Essentials & Beauty grew in the mid-single digits, led by Beauty, which delivered comp growth in the low double digits. Within our Beauty offering, core Beauty delivered double-digit growth while sales from Ulta Beauty at Target more than doubled compared with a year ago, showing why we're so enthusiastic about this exclusive partnership.

Food & Beverage sales were in the low single digits, and we saw particular strength in snacks, candy and beverages. Conversely, discretionary categories softened further from recent trends, with Apparel, Home and Hardlines all seeing comp declines in the low double digits to mid-teens in the second quarter, several percentage points softer than in the first quarter. Even as trends in these categories remain quite soft overall, there are pockets of newness that are working quite well, and we're doubling down on investments in those areas.

For example, our Entertainment business within Hardlines continues to see healthy growth in the mid-single digits, driven by newness in books and renewed growth in vinyl records. With that in mind and knowing how our guests can't get enough of Taylor Swift, we proactively secured an exclusive vinyl offering that Swifties bought in droves. Additionally, in Home, we've seen incredible demand for Stanley tumblers and cups. So we worked in partnership with Chip and Joanna Gaines to add exclusive new colors to the line as part of our beloved owned brand, Hearth & Hand, found only at Target.

As you heard from Brian, we anticipated some of the headwinds at play throughout the second quarter, including the continued pullback in discretionary spending. Other headwinds were incremental, including the strong reaction to this year's Pride assortment. Our goal is for our

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assortment to resonate broadly and deliver on the Target brand promise. In this case, the reaction is a signal for us to pause, adapt and learn so that our future approach to these moments balances celebration, inclusivity and broad-based appeal.

As we move ahead, we're confident that if we stay close to our guests, consistently execute on our retail fundamentals and continue investing in our assortments, services and experiences, we will position Target for continued growth over the long term. After all, as a guest-led company, we have been listening to and learning from our guests for decades.

As an example, last year, we heard loud and clear that Target Circle members love exclusive events. So we repurposed last year's Deal Days and made our Target Circle Week in July bigger than ever with incremental promotions and new ways to engage. In fact, we enrolled well over 0.5 million new guests during this event alone, more than 3.5x higher than in an average week.

Additionally, Beauty guests told us for years how they would love the convenience of completing their beauty trip with access to prestige beauty products while shopping at Target. This led to the development of a unique partnership with Ulta Beauty to meet those needs. And today, based on the strong results we've seen so far, we continue to expand the footprint of these new shop-in-shops.

When our guests, who already love our Drive-Up service, told us that they wanted us to add Starbucks and the ability to make returns, we quickly built, piloted and are now rolling out those capabilities across the chain, and we're seeing incredibly high Net Promoter Scores from our guests.

And well before the recent release of the long-awaited Barbie Movie, we collaborated with our vendor partners to secure exclusive items across multiple categories while adding a splash of pink style for Barbie fans of all ages. Barbie, along with Disney's The Little Mermaid, are the most recent examples of our long record of success in securing timely, relevant product lines supporting key movie licenses across toys, apparel, home, beauty and food, which have allowed us to consistently capture between 30% and 60% market share with these properties.

While we continue to take a conservative inventory position overall, these examples show that we are still leaning into key opportunities. We know our guests want to celebrate culturally and seasonally relevant moments, and we'll be leaning into those moments in a big way in the third quarter and the upcoming holiday season. And our guests have told us that affordability; availability; and easy, convenient and consistently joyful shopping experience are more important than ever.

While I've shared in prior calls that we're always focused on retail fundamentals, we're further sharpening our focus on 4 key aspects: Comprehensive affordability, in-stock levels, leveraging our proximity to our guests and the overall shopping experience.

For a great example look no further than our Back-to-School and Back-to-College assortments. We know our guests are approaching Back-to-School with a value-conscious, deal-driven mindset, so we're leaning into savings for teachers and college students, including our 20% off Teachers Appreciation and Student Savings events. We're also featuring ultra low everyday prices all season long, with school supplies starting as low as \$0.25, and key items such as lunch boxes and graphic tees at compelling \$5 price points. And just in time for Back-to-School, we're launching new Good & Gather products, including an assortment of new lunchbox-sized items.

Back-to-College is always a big season for Target. This year, we're leaning into affordability as well as proximity to college-bound students. This includes strategic inventory bets and allocations in key markets where there are the greatest market share opportunities to ensure we're in stock and ready to play offense during this critical season.

Of course, affordability goes well beyond a single season like Back-to-School. In fact, with many consumers making their decisions on where to shop based on affordability, we're highlighting the comprehensive value we provide through our \$30-plus billion owned brand portfolio.

For example, Threshold, our flagship owned brand in Home, just received a major facelift. With new branding, stronger price points and a clarified aesthetic to help guests mix and match affordable styles for their homes, this beloved brand will be even easier to love. And just in time for the holidays, we'll be launching new owned brands while expanding others, including the launch of a new kitchenware line that will make everyday meal prep easier while offering incredible quality and durability. Look for lots of newness on store shelves and online later this Fall.

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As John will cover in more detail, we continue to invest heavily in our in-store experience, which starts with new stores and remodels that incorporate our latest and greatest offerings, including Apple, Levi's and Disney experiences, as well as the additional Ulta Beauty at Target locations. And just like we remodel our stores to reflect our latest thinking and guest feedback into the shopping experience, we'll begin rolling out a remodel of our digital experience this quarter.

Based on guest feedback, we're investing to create a digital experience that enhances the love of discovery while balancing the ease of navigation. This will include different landing experiences, more personalized content, enhanced search functionality, ease of navigation and other updates to bring more joy and convenience to our digital guests.

Through it all, our teams continue to exhibit a commitment to excellence in the pursuit of helping all families discover the joy of everyday life. Regardless of the external environment, our team consistently shows up and rises to the moment. I'm incredibly proud to work alongside such a talented team. Thank you for all you do to bring that Target magic to life day in and day out.

With that, I'll turn the call over to John.

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

Thanks, Christina. Like Brian and Christina, I want to start by thanking our amazing team. This quarter's better-than-expected profitability was a testament to their agility and resilience as they successfully managed through multiple challenges.

And while the team deserves credit for this performance, they got an assist from this year's leaner inventory position which offered more room to maneuver than a year ago when the team was dealing with excess inventory. This year, with unclouded facilities, a renewed focus on retail fundamentals and our continued work to enhance efficiency, the team delivered an impressive increase in profitability in the face of a challenging top line.

Across the entire supply chain, we're benefiting from much more favorable conditions than a year ago. Perhaps most notable is in global shipping, where second quarter import lead times were nearly 30 days shorter than last year and within a couple of days of pre-pandemic levels. In our domestic supply chain, because of strong partnership with our vendors, we're seeing improvement on multiple performance metrics, including fill rates and on-time arrivals. And at our regional distribution centers, inbound backlogs have been reduced by more than a day since last year.

In the new flow centers we've opened over the last couple of years, we're also seeing improvements across multiple performance metrics as these new buildings continue to scale up towards capacity. In support of their primary role in replenishing store inventory, these facilities were designed and equipped to support our stores as hubs strategy with newly developed automation that can assemble customized, presorted and sequence shipments for every store they serve.

With these shipments, stores see faster replenishment times, require less labor to unload a trailer and maintain lower levels of backroom inventory. More precisely, stores being serviced by these new facilities have seen a 20% reduction in lead times, enabling them to respond more quickly to changes in guest demand. Also notable, stores serviced by these new facilities are benefiting from improvements in in-stock levels while maintaining lower levels of backroom inventory.

Beyond store replenishment, we're operating these new flow centers in a way that's unique within the industry. In the same way we pioneered ways to leverage the proximity, inventory and assets in our stores to quickly and efficiently fulfill digital orders, we're leveraging those same characteristics of our flow centers to fulfill certain digital orders beyond their primary role in replenishing store inventories.

In light of our focus on retail fundamentals throughout the supply chain, our stores are seeing meaningful improvements in their in-stocks, even with 17% lower inventory on our balance sheet than a year ago. In the second quarter, overall in-stocks were a full percentage point better than first quarter and more than 2 points better than last year. We've seen even bigger improvements on our top items and in our top stores. And this year, we sat with meaningfully better in-stocks on key seasonal programs, including Back-to-School and Back-to-College, than we saw a year ago.

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Our new sortation centers are delivering outstanding results. These facilities operate downstream from our stores and help to increase the speed and efficiency of last-mile delivery. Up to 70% of the packages processed by these facilities stay in the local market, allowing us to partner with Shipt to handle the last mile. This integration with Shipt allows us to achieve meaningful efficiency and cost savings while offering much greater speed of delivery to our guests.

More specifically, in markets where we operate a sortation center, the average click-to-deliver time is nearly 1.5 days shorter than the network average, with about 1/3 of the packages arriving in only 1 day. As we continue to open new buildings and test and iterate on their operating model, we expect these speed metrics will continue to improve in the future.

Today, based on the proven success of this strategy, we have 10 sortation centers already operating and expect to open at least 6 more over the next few years. This current group of sortation centers is expected to process more than 35 million packages in 2023, representing a more than 20% increase from a year ago and a more than sixfold increase from 2021.

As I described in our call 3 months ago, store teams this year have been focused on reinforcing best practices that support the retail fundamentals Christina highlighted earlier. In particular, this year, we've been investing to provide incremental training and reporting on several key factors that play a critical role in providing a great shopping experience, including staffing and scheduling; setting, filling and replenishing merchandise presentations; and protecting the safety of our guests and our team.

Throughout this year, our store teams have been progressing through a strategically sequenced training program designed to reinforce these best practices at key moments, like Back-to-School and Back-to-College. The goal is to provide an elevated, consistent experience every day in every store across the country.

Since we've rolled out this training, we've seen broad-based improvement on performance metrics tied to critical guest outcomes, including pricing accuracy, locating items for digital orders and setting key seasonal programs more quickly and completely. And in support of the goal of achieving greater consistency in the level of execution across our nearly 2,000 stores, we've implemented a new rapid response process to help individual locations recover more quickly when they begin to see a decline in key metrics.

Also in stores, as Christina mentioned, we are really pleased with the early results from nationwide rollout of Drive-Up returns and the ability to add a Starbucks order to a Drive-Up trip. We've long said that Drive-Up receives the highest satisfaction rating of any service we provide. And as proud as we are of what we've already accomplished, we continually push ourselves to find new ways to further differentiate Drive-Up. And when we ask our guests how we could do that, they told us that adding Starbucks and taking returns were at the top of their list.

To ensure that we could consistently execute on these new services while maintaining the high bar we've attained for satisfaction, we applied a disciplined test-and-iterate approach to the rollout, beginning with small-scale tests in the second half of 2022. Following a successful test of Drive-Up returns, we launched the service nationwide in April and May, and the results have been outstanding. Once a guest arrives at a Drive-Up lane, the average wait time for a team member to process their return is within 3 minutes, consistent with our standards for a traditional Drive-Up order.

As we began testing the addition of Starbucks to Drive-Up, and given the complexities of making and promptly delivering a hot or cold beverage after our guest arrives, we wanted to put the process through an intensive period of testing and refinement. And today, based on what we've learned during the test period, we're confident we can scale up this service while consistently maintaining our service standards. As a result, we're currently in the process of rolling out Starbucks at Drive-Up nationwide and plan to complete the rollout by the end of October, just in time for pumpkin spice latte season.

So now before I finish my remarks, I want to provide a brief update on this year's new store openings. As you know, we plan to open about 20 new locations this year, ranging in size from 20,000 to 137,000 square feet. In the second quarter, we completed and opened another 5 new stores, bringing our year-to-date total to 11.

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Highlight of our second quarter projects was the opening of our first new offshore location since 2021, a new store in the Oahu Windward Mall, bringing our store count in Hawaii up to 9. At 132,000 square feet and featuring a Starbucks, Ulta Beauty, CVS, Snack Bar and 18 Drive-Up stalls, this is one of the largest stores we'll open in 2023. And I'm happy to say that it had one of the strongest openings of the year, reflecting outstanding execution by our team. Like our other stores in Hawaii, this new location is expected to be one of the most productive in the chain. And during its first week, it generated the second-highest sales volume out of the most recent 175 stores we've opened.

I also want to pause and acknowledge the devastating wildfires that hit Maui in Hawaii. Thankfully, members of our team there are safe, though some have lost homes, had to evacuate or are providing shelter for family and friends. Our nearby stores remain open, helping guests to get much-needed essentials while donating masks and other emergency supplies. In addition, Target has announced a \$1 million donation to help national and local disaster partners, and our team member giving fund is collecting donations from team members across the country to help their colleagues impacted by these wildfires.

So as I turn the call over to Michael, I want to end with where I started and highlight the tireless efforts of the best team in retail. The last 4 years have been anything but business as usual, and through it all, our team has consistently maintained their focus on what matters most: Taking care of our guests and taking care of each other. I couldn't be more proud to work alongside them and learn from them every day.

With that, I'll turn it over to Michael.

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

Thanks, John. As John just mentioned, our team and operating model continue to navigate through a host of challenges on the top line, but our business is showing its resilience.

More specifically, we're really pleased with the strength of our second quarter profit performance, which further validates the cautious planning approach and lean inventory position we've maintained throughout the year. This positioning, combined with our continued efficiency efforts, allowed us to make meaningful progress toward our profit recovery goals even in the face of softer-than-expected sales, giving us further confidence that our strategy is sound, we have the right team and our business is positioned for continued progress in the years ahead.

Total revenue was down 4.9% in the second quarter. Total sales also decreased by that same amount while other revenue grew 1.3%. Within other revenue, we continue to see strong growth from our Roundel ad business, which offset declines in credit card profit sharing and other small income items compared with last year. Comparable sales were down 5.4% in Q2, reflecting a 4.8% decline in traffic.

Among the factors affecting our top line performance, comps and discretionary categories continue to reflect challenging trends in the industry, which softened further in Q2. A second factor was lower inflation in food, beverages and essentials as we compare to over peak inflation a year ago. Furthermore, traffic and top line trends were affected by the reaction to our Pride assortment, which launched in the middle of May. And lastly, our results reflected the comparison over last year's clearance and promotional activity, which affected weekly comp trends in certain categories, particularly in the digital channel. While each of these factors played a role in the quarter, it's not possible to reliably quantify the separate impact of each one.

In terms of the monthly cadence in Q2, comp sales in May were down a little more than 3%, moved down to a decline of just over 7% in June, then made an encouraging recovery to minus 5% in July. Monthly traffic followed a similar cadence and actually recovered a bit faster than sales in July.

Even with unexpectedly soft sales, inventories remain very well controlled. At the end of the second quarter, balance sheet inventory was 17% lower than a year ago. This reflects our cautious planning approach, the agility of our team in responding to softer sales trends and the benefit of a faster global supply chain which enabled shorter lead times. Among our merchandising categories, discretionary inventory was down 25% at the end of Q2, partially offset by increases in our frequency categories and strategic investments in long-term share opportunities.

Importantly, as John mentioned, even with much leaner inventories, we've seen meaningful in-stock improvements across our network. We were really pleased with our second quarter gross margin performance, which was enabled by our ongoing work to navigate this volatile environment.

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Our Q2 gross margin rate of 27% was 5.5 percentage points higher than a year ago. This increase reflects multiple benefits within merchandising, including lower markdowns and other inventory-related costs, along with the benefit of lower freight and transportation costs.

Beyond merchandising, we also saw about 0.5 point of benefit in digital fulfillment and supply chain due to a lower mix of digital sales and a favorable mix of same-day services within the digital channel. Offsetting these benefits was a 90 basis point headwind from inventory shrink, in line with our expectations.

One note. Consistent with the first quarter, category mix did not affect our gross margin rate compared with last year, and we saw a similar deceleration across all 5 of our core merchandising categories between Q1 and Q2 of this year.

Our second quarter SG&A expense rate was 1.7 percentage points higher than last year. This increase reflects the deleveraging impact of lower sales, combined with the impact of higher costs, including continued investments in pay and benefits for our team and inflationary pressures throughout our business. These pressures were partially offset by disciplined cost management across our team.

On the D&A expense line. The Q2 rate was about 20 basis points higher than last year, reflecting the deleveraging impact of lower sales on a 3.9% increase in dollars.

Altogether, our Q2 operating margin rate of 4.8% was about 4x higher than last year, reflecting a meaningful recovery from last year's inventory actions. On the bottom line, our second quarter GAAP and adjusted EPS of \$1.80 was significantly higher than last year and above the high end of our guidance range. While we expected to see a big improvement in profitability this quarter, I can't emphasize enough the importance of our team's agility in delivering this performance, something that's even more notable given that shrink drove nearly a full point of profit pressure versus last year.

Now I want to turn briefly to capital deployment and start with our priorities, which have served us well for decades. First, we fully invest in our business, in projects that meet our strategic and financial criteria. Then we look to support our dividend and build on more than 50 years of consecutive annual increases. And finally, we return any excess cash through share repurchase over time within the limits of our Middle A credit ratings.

So far this year, we've made capital expenditures of \$2.8 billion and continue to expect full year CapEx in the \$4 billion to \$5 billion range. In the second quarter, we paid \$499 million in dividends compared with \$417 million last year, reflecting a 20% increase in the per share dividend. And finally, we didn't repurchase any shares in Q2 as we continue to focus on strengthening our balance sheet and restoring our debt metrics to levels that support our Middle A credit ratings.

And we're encouraged by the progress we've already made, as the combined benefit of a significant profit recovery and lean inventory position have driven a meaningful improvement in operating cash flow. More specifically, our operations have generated \$3.4 billion in cash through the first half of this year compared with a slightly negative number through the first half of last year.

I'll end my comments on the quarter with our after-tax return on invested capital, which measures our current profit performance in the context of our long-term investments. For the second quarter, our trailing 12-month after-tax ROIC was 13.7%. While still healthy in absolute terms and more than 2 percentage points higher than the first quarter, it remains well below the level where we expect to operate over time.

Now I'll turn to our expectations for Q3 and the remainder of the year. And today, as we assess the economic and industry backdrop, we continue to see a mixed picture. On the positive side, GDP, employment and overall consumer spending have been resilient, and we're beginning to see a recovery in consumer confidence. On the other side of the ledger, while we're happy to see inflation rates begin to moderate, that's likely to cause some near-term pressure on dollar comps in our frequency categories. In addition, the upcoming resumption of student loan repayments will put additional pressure on the already strained budgets of tens of millions of households. Against this backdrop, we remain cautious in our planning, an approach that has served us really well so far this year.

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On the top line, we're now planning for comparable sales in a wide range centered around a mid-single-digit decline for the remainder of the year, consistent with what we experienced in July and the second quarter overall. This updated sales expectation is meaningfully softer than our expectation at the beginning of the year.

With this change in the top line, we've also adjusted our bottom line guidance and now expect full year GAAP and adjusted EPS in the \$7 to \$8 range compared with our prior range of \$7.75 to \$8.75. While multiple factors will determine where our actual results wind up in comparison to this expected range, the single most important variable will be the pace of our sales as we're confident we'll continue to benefit from our efficiency efforts and lean inventory position.

In the third quarter, we're expecting GAAP and adjusted EPS in a range from \$1.20 to \$1.60 on a wide range of comparable sales centered around a mid-single-digit decline. In terms of quarterly EPS cadence, I want to take note of a couple of unique circumstances this year. The first is shrink and how that is expected to play out over the next 2 quarters.

As I mentioned earlier, based on the high loss rates we're continuing to see, second quarter shrink was consistent with our expectations, and our full year shrink expectations remain unchanged. However, we expect the year-over-year comparisons will look meaningfully different between Q3 and Q4. In Q3, we expect the dollar and rate pressure from shrink will be roughly consistent with the first half of the year at around 90 basis points. However, in Q4, we expect to see a small amount of year-over-year favorability from shrink.

I want to stress that this anticipated change in quarterly comparisons does not reflect an expectation that underlying loss rates will begin to improve in Q4. As Brian mentioned, we're working hard, both inside our stores and with government and community partners, to achieve lower loss rates over time. And our long-run expectation is that shrink rates will moderate from today's unsustainable levels.

But so far, we've only seen indications that loss rates might soon be reaching a plateau, but have not yet seen evidence that loss rates will begin to come down. So the only reason for the expected change in year-over-year comparisons is the cadence of how shrink was recognized by quarter in the back half of last year, a period when loss rates increased rapidly, resulting in higher shrink accruals at year-end. Because we've seen more consistent loss rates in 2023, quarterly accruals have been more consistent throughout this year.

Another important consideration is that 2023 is a 53-week accounting year, so the fourth quarter will include an extra week of sales and profits. We estimate that the extra week will add about \$1.7 billion in sales and results in about 30 basis points of operating margin leverage on the quarter. I'll note that the extra week will not affect our comparable sales as we base that calculation on periods of equal length.

As I get ready to end my remarks, I want to add my thanks to the entire Target team. From the flexibility they built into our business plans, to their responsiveness in the face of this quarter's top line volatility, and their continued work to enhance our long-term efficiency, they're clearly demonstrating their amazing resilience and showing why we're confident that we work with the best team in retail.

With that, I'll turn the call back over to Brian.

Brian C. Cornell - Target Corporation - Chairman of the Board & CEO

Before we turn to your questions, I want to pause and reinforce why we're so confident in our long-term prospects, which position us for profitable growth in the years ahead.

Retail is an ongoing journey: The continuous process of listening to consumers and rapidly evolving to meet their preferences. To do that well, you need to have the right assets in place which allow you to quickly evolve as your guests' wants, needs and preferences change. And we're proud of the way we have built and strengthened Target's assets over the last decade.

During this time, we pioneered and built a unique stores as hubs model and invested in new supply chain capabilities to support that model. We invested billions of dollars in our existing store base, modernizing their shopping experience while optimizing those facilities to support digital

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fulfillment. We opened new locations in markets that had never been served by a Target store, and we continue to evolve our new store design. We developed and launched industry-leading same-day services, which received some of the highest guest satisfaction ratings of anything we do.

Within our assortment, we innovated to make our Food and Beauty businesses even stronger and gained huge amounts of market share along the way. We built an even stronger portfolio of industry-leading owned brands which today generate more than \$30 billion in annual sales. We also strengthened our portfolio of national brand partners with Ulta Beauty as the most recent example. At the same time, we developed and launched our Roundel ad business, which leverages the power of our guest base and vendor relationships, to deepen the bond between our guests, our vendors at Target.

We also built and launched Target Circle, which has quickly become one of the largest loyalty programs in the United States, providing us with even deeper insights about our guests and how we can serve them.

And finally, we invested in our team, the best team in retail, by rapidly increasing their hourly wages and the benefits we provide while building stronger pathways to career development and advancement and designing operational processes to enhance their safety and job satisfaction.

With all of these assets in place today, we're not standing still. We're uniquely prepared to navigate into the future, including any uncertainties we'll face. We're committed to carefully listening to our guests and to our team and continuing to invest in capabilities and assets that will best serve our guests, even as their wants and needs and expectations evolve from where they are today.

Since no one knows what the future will bring and when new opportunities and challenges will arise, the company's best position to thrive over time are the ones with the tools to adapt. And with our stores, our brands, and our vendor partners, our capabilities and our great team, we have everything we need to deliver long-term growth and success.

With that, we'll turn to Q&A. Christina, John, Michael and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Rupesh Parikh with Oppenheimer.

Rupesh Dhinoj Parikh - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

So I was hoping to get more color in terms of what you guys are seeing quarter-to-date. And then if you have any initial reads on what you're seeing with the Back-to-School season.

Brian C. Cornell - Target Corporation - Chairman of the Board & CEO

Michael, I'm happy to start. Rupesh, obviously, it's very early in the season. But for the first 10 days of August, we're very pleased with the results we're seeing. They were very consistent with what we saw in the month of July as guests turn to Target for their Back-to-School and Back-to-College shopping.

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

Yes. I don't have much to add to that. We knew the Back-to-School and Back-to-College seasons would be important for us. They always are. Second-biggest seasonal moment for us only next to the holiday season. And it was a season where we expected to have some share opportunities.

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So like Brian said, 10 days in, so just getting started with the quarter, but we're pleased with what we see so far. And the exciting thing about the balance of the year is we've got a lot of those seasonal moments to come. And we know our business performs so well across all categories in those seasonal moments.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Michael, the only thing I would add as we think about Back-to-School, and particularly Back-to-College, is we expect the shopping season to extend into September, in fact, throughout the month of September. So we're off to a solid start, it's still very early. But we think this will be a Back-to-School season that extends into September.

Rupesh Dhinoj Parikh - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. And then maybe one follow-up question. So at your Analyst Day, you indicated expectations for achieving a 6% operating margin rate as early as FY '24. Just given that weaker top line, is that still in the realm of possibility, of getting up to 6% in your next fiscal year?

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

Fair question, Rupesh, and one I'm sure we'll come back to over time. Right now, we're laser-focused on delivering a strong back half of the year. We're pleased with the profit recovery we saw in the second quarter. When we headed into this year, the path to 6% was paved with meaningful profit rate improvement in 2023. And I couldn't be more thrilled with the progress the teams are making towards that, as evidenced by the strong profit performance in Q2. And we'll continue to plan cautiously and set the team up for as much agility as possible in the back half of the year. And I would expect that progression on profit to continue through the balance of this year, but more to come at the right time on what we think that long-term trajectory looks like.

Operator

Our next question is from Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

We wondered if you could talk through gross margins maybe a little bit more. We were curious about how much more markdowns were versus plan given the softness on the discretionary side and some of the merchandising challenges. And what was the offset -- the meaningful offset there?

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

Yes. Kate, I'm happy to start and welcome, Christina, if you want to add any more color. But the biggest story on the markdown front. I mean, I think we described the promotional environment is rational and really as expected for the quarter. On a year-over-year basis, clearly, as you know, Kate, we saw meaningful improvement from last year's excess markdowns and cost to clear inventory. And so as you think about the 5-plus point improvement in margin rate year-over-year, the vast majority of that improvement comes from being cleaner from an inventory respective and saving those costs from last year.

And so again, just one more example of, by planning the business cautiously, by positioning with flexibility, and by the team reacting to some of the sales trends we saw in the quarter with urgency, we've been able to keep inventory really clean. If you look at the balance sheet, you'll see as clean of an inventory picture exiting the quarter as we started with, with inventories down 17% in total, down 25% in the discretionary categories. So we feel well managed on the inventory front, and that's showing up with markdowns playing out as expected.

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Yes, Michael. I wouldn't have a lot to add. We're pleased with the team's agility and we believe that the environment is rational, and we're continuing to build back our profit in light of the circumstances.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

And a follow-up question comes on the heels, I think, of the first question that was asked. But wanted to get a little bit more detail about any changes in consumer behavior within the discretionary categories, especially as traffic got better into July? And just how you're thinking of the discretionary categories in the back half of the year.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Yes. Kate, I think we've continued to see the same trends over really the last year now. Well, I think we see a very resilient U.S. consumer, and I think so much of that is fueled by the strength in the labor market. We continue to see a consumer who is facing high inflationary pressure in Food & Beverage and Essential categories that's absorbing a bigger portion of their wallet.

I think as they think about discretionary spending, we've seen a rotation in their wallet from goods into services. You're seeing the uptick in travel and leisure, what's happening in entertainment. So those trends, we expect to continue into the back half of the year. We'll watch it carefully. I think our inventory position allows us the ability to chase into demand, and we'll be ready when we see demand changing as we enter the holiday season. But I think the consumer is still taking a very cautious approach to discretionary spending in the goods sector.

Operator

Our next question is from Oliver Chen with TD Cowen.

Oliver Chen - *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Regarding traffic, what's your forecast for traffic that's embedded in guidance? Do you expect it to continue to be in the negative low or negative mid-single-digit range?

Also, as we dive a little deeper into the discretionary product assortment, what do you see as opportunities in apparel? And how are you thinking about your overall private label assortment in terms of rebalancing and/or the portfolio relative to non-private label?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Christina, do you want to talk about some of the plans we have in place for the back half of the year, some of the newness we have in our assortment, and some of the exciting new changes we're going to make from an owned brand standpoint?

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Yes, I'd be happy to. So Oliver, thanks for the question. On the discretionary portfolio, we continue to build our assortment strategy for the long term. We fully believe in our multi-category portfolio, that it offers us an ability to meet the guests' needs in a variety of different times.

At the moment, given where the consumer is spending, we're, of course, leading on the strength of our Food & Beverage portfolio and Essentials & Beauty, with Beauty really being a highlight with double-digit growth both in Ulta Beauty at Target as well as our core business.

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Within discretionary, what we're seeing is that there are things that are very much working around newness and innovation. And as you pointed out, our owned brand portfolio plays a huge role in delivering against those goals. We design, we create, we source, we build assortments that -- where we can control a lot of those elements.

And we've introduced a lot of newness whether you think about, even in the last quarter, taking advantage of the hot trend with family tumblers and introducing that and embedding that in Hearth & Hand. We have just relaunched our own brand, Threshold, which is our signature Home brand, with updated aesthetics and great price points and new branding. We continue to lean on opportunities. You'll see us launch a kitchenware brand later this quarter, which we're really excited about for its value, but incredible quality and durability.

But beyond those opportunities to introduce innovation, it's really taking advantage of the opportunities where guests can do more in one store at Target, and that happens during those seasonal times, where we can leverage both the strength of Food & Beverage as well as Home or Apparel to complete the trip. And Back-to-School, Back-to-College, as Michael mentioned, is a terrific time for us to showcase the strength of our portfolio.

So we'll keep doing what we're doing. We're leaning into different categories, but we're planning appropriately so that we can be responsive in the market.

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

And Oliver, on traffic, as you know, we don't break out a separate traffic forecast. And so kind of the build that goes into our top line guide is embedded in all the things that underlie it. But a couple of thoughts that, one, I'll just reiterate from my comments.

We were pleased with the sequential improvement in July in the quarter, and we saw traffic improve at a slightly faster rate than dollars did as we saw that improvement. And then if you zoom all the way back out, versus 2019, if you look at the first 6 months of this year compared to 2019, I mean, we've got almost well over 20% higher traffic coming to our business than we were pre-pandemic. That translates to 170 million or so more guests interactions with Target in store and online. And so the deeper guest engagement we've built is evidenced by our traffic growth over time, critically important to our prospects going forward.

Brian C. Cornell - Target Corporation - Chairman of the Board & CEO

I'll try to tie those 2 questions together. During the balance of the year, you'll continue to see us lean into seasonal moments. We know those are very important moments for our guests, those are traffic-driving moments for Target. And to Christina's point, we'll combine great newness with affordability throughout those seasons.

If you're in our stores today or looking at target.com, you're seeing us lean into this Back-to-School season with great affordability. We'll continue to do that as we enter the Halloween season, get ready for the holidays, combining that great Target newness with great affordability that meet the needs of our guests.

So we'll be cautious as we plan for the back half of the year, but we'll lean into those big seasonal moments where we know the guest expects Target to be there to meet their needs.

Oliver Chen - TD Cowen, Research Division - MD & Senior Equity Research Analyst

Brian, one follow-up. Inclusivity has always been important to Target as well as thinking about stakeholders. What are your thoughts in terms of appealing to the broad array of customers going forward and strategies there, particularly around LGBTQIA+?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Oliver, at the heart of our purpose is our commitment to bring joy to all the families we serve. And that really is all families. So we want to make sure Target is that happy place for all of our guests, a place where they can recharge and enjoy those shopping experiences, and you should expect to see us continue to do that over the years to come.

Operator

Our next question is from Michael Lasser with UBS.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

The perception is that Target gained a lot of share over the last few years. And now as its traffic is under pressure, guests are either going elsewhere or Target is losing market share. So what levers can Target pull in order to recapture those who would become disenfranchised or are seeking out value or discretionary goods at other retailers? And how much might it cost to regain those guests that are now shopping elsewhere?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Michael, I might start by zooming out a bit and kind of looking at our performance over several years. Since the start of the pandemic, we've added over \$30 billion of top line growth, a significant increase since 2019. And importantly, that's been driven by an increase in trips and transactions, guests spending more time shopping in our stores.

I think the strategy we have in place and have had in place for years will serve us well going forward. We'll continue to make sure we're investing in a great in-store experience. Making sure that we are recommitting to retail fundamentals, which means being in stock every time you shop, providing great affordability, making sure we're leveraging our proximity, providing a great guest experience. That extends into the work we'll do from a fulfillment standpoint. We continue to see our guests turn to Target for same-day services, whether it's Drive-Up or Pick-Up or having something delivered to their home through Shipt.

Our owned brand portfolio is now a \$30 billion brand portfolio. It's a trusted portfolio of brands that provides great quality and style and affordability. So we'll continue to invest in the strategy that served us so well over the last few years and I believe will continue to serve us well going forward.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Understood. Our follow-up question is on the operating expense outlook. In light of the traffic declines, presumably, you're adjusting your labor. And on top of that, you're in the midst of harvesting \$2 billion to \$3 billion of savings over the next couple of years. So can you give us a sense for how your operating dollar growth is going to look in the back half of the year? And are there any onetime factors that are going to benefit your operating expense dollar growth that would not be sustainable moving forward?

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

Yes, I'm happy to take that one, Michael. I mean, obviously, on the SG&A line, leverage matters. And so the softness we saw in the second quarter showed up in some deleverage on some of those more fixed expenses, especially in an inflationary environment. We still got a fair amount of inflation. And importantly, investments in our team, in wage and benefits on that line as well.

But I'll say the team's flexibility in the quarter, not just in SG&A, but across the P&L, was really remarkable. And that starts with well-managed inventories. And we talked about the implications for markdowns on the gross margin line there. But managing inventory well flows across the whole system.

I mean, we were heavy last year. That makes us more efficient -- more inefficient in stores when the back rooms are full. It makes us more inefficient in our distribution centers when we're managing a lot of inventory. And so we're seeing the benefits of that cleaner inventories position across the system, and I would expect those benefits to continue.

And we've got a team that's really focused on managing costs and expense well in the current environment. And that work on efficiency, to translate the scale gains we've seen over the last few years into a more efficient operation, I would expect that to continue to be fuel in the quarters and years to come on the efficiency front.

Brian C. Cornell - Target Corporation - Chairman of the Board & CEO

Operator, we have time for one last question today.

Operator

Our last question is from Simeon Gutman with Morgan Stanley.

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

I wanted to ask, I don't know the way in which you look at the consumer, whether it's in quintiles or deciles. Can you give us a sense, if you look at the comp that the business is performing, how that spreads across your best customer, your middle customer and then maybe your most occasional customer? And if there's anything we could glean from that and think about how it recovers.

Brian C. Cornell - Target Corporation - Chairman of the Board & CEO

Christina, do you want to share some of the insights we have about the different guests that are shopping our stores today?

A. Christina Hennington - Target Corporation - Executive VP & Chief Growth Officer

Yes. I think, obviously, we've seen the -- as Brian talked about, we've seen a rotation in their wallet. And so the guests that are more engaged with our discretionary businesses are now leaning more on into our frequency businesses.

But I would tell you a very compelling proof point that came out of the second quarter is how we performed during Target Circle Week. Target Circle Week was Target's opportunity to demonstrate value and give back value to our most loyal customers. This was a shift from prior years, where we did Target Deal Days, and the guests really responded to our actions.

In fact, it was our single-largest Target Circle Week ever. We acquired an incremental 500,000-plus guests, which is more than 3.5x the average weeks' acquisition rate, into that loyalty program. A loyalty program, by the way, that already has 100 million members. And so the depth to which we're relating to our guests is going to continue to be fueled by our ability to understand them and serve them uniquely, and Target Circle is one way that we're going to do that.

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

And then the follow-up, maybe for Michael. If you look at the margin recovery of the business that could happen over, call it, the next year or so, is there anything that stands in the way of it? Meaning if we see comps recover and bounce back, especially that means your signature categories recover, is there any reason why we shouldn't see margins continue along that path? I know you said we'll answer it when we get back to the back half of the year. But is there anything that stands in the way of that margin recovery?

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

I think it's the factors we've been talking about for a while now, Simeon. And to see a return to positive comp growth in some of those higher-margin discretionary categories, that would be a welcome benefit to margin, for sure.

One of the things we'll need to continue to watch is the pressure we've seen from shortage. If You go back to where we were pre-pandemic, I mean, that is one of the single biggest margin headwinds in the business. And so the path of stabilization, we were pleased to see shortage come in as we forecasted in Q2, but that's still a material headwind on a year-over-year basis, on a 2-year basis. And so I think that will be an important variable to watch going forward as well.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Michael, on that note, as we wrap up the call today, I certainly want to thank our entire team for their efforts throughout the quarter.

I particularly want to recognize our asset protection teams. We've talked a lot over the last couple of quarters about the pressures we've been facing with organized retail crime, and I really appreciate the work that our asset protection teams do each and every day to keep our guests safe, our team safe and allow us to operate safely each and every day.

So thank you all for joining us. We look forward to talking to you later this year. That wraps up our second quarter call.

Operator

Goodbye.

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