Thanks, John, and good morning, everyone. Our third quarter results are the result of superb execution by our team as they continue to drive outstanding near-term performance. In addition, the team is fully engaged in making meaningful progress as they work to transform Target and position us for sustainable long-term success.

Third quarter adjusted EPS of $1.09 was in line with our expectations and more than 20% higher than last year. This performance also established a new all-time high for Target's third quarter adjusted EPS. Our third quarter comparable sales increase of 5.1% was also in line with our expectations and slightly stronger than the pace we established in the first half of the year. This comp growth is very encouraging on its own, but we're even more excited that it's being driven by traffic in both our stores and digital channels.

Comparable sales in our digital channels grew 49% in the third quarter, far outpacing the industry and the vast majority of our peers. This growth was driven by our guest response to our team's efforts to make the digital shopping experience easy and seamless, deliver new and innovative items through our owned, exclusive and national brand assortments and offer an unmatched suite of convenient fulfillment options.

While digital channel sales continued to grow rapidly, we are benefiting from healthy traffic and sales growth in our stores as well. This growth reflects the capital we are investing in our remodel program, enhancements of the assortment and presentation in key categories, and investments in our team, which will help them provide an elevated experience and higher level of service.

And finally, on top of comparable sales, new stores contributed more than 0.5 percentage point to our third quarter sales growth. This growth is being driven by new small format locations that we're opening in dense urban settings and near college campuses across the country. We refer to these stores as small because of their square footage, but they really punched above their weight because of their high sales productivity. This allows these locations to deliver strong financial returns while allowing Target to reach guest segments we couldn't serve in the past.

As we've been saying all year, when we analyze the drivers of our strong traffic and sales growth, we see the benefit of all the strategic initiatives we are pursuing, including our remodel program, efforts to rejuvenate our portfolio of owned and exclusive brands, the rollout of new fulfillment options focused on delivering ease and convenience, including Restock, Drive-Up, and Personal Shopping in as little as two hours with Shipt; investments that allow our stores to fulfill an increasing number of target.com shipments, allowing us to deliver quickly, while also controlling costs; new digital capabilities to make shopping faster, easier, and more inspiring; our work to ensure we are priced right daily while delivering the appropriate number of clear, compelling promotions; and investments in hours, wages and training for our team to further differentiate the shopping experience in our stores. Rather than measuring a separate benefit from each of these efforts, we believe the impact of all of them together is well beyond the sum of the parts.

From a guest perspective, it's the combination of everything we are doing that makes Target more top of mind, causing guests to choose us more often. Beyond the impact of our efforts, we continue to benefit from a very healthy consumer and macroeconomic backdrop.

In addition, as other retailers continue to close stores and liquidate in the face of rapid changes in consumer preferences and shopping behaviors, our investment position Target to capture sales and market share by serving consumers who are no longer shopping those competitors.

Now, we've been clear that all of our efforts to grow and transform Target involve a commitment of resources, which explains why I've already used the word “investment” five times in these remarks. And it's also why we are fortunate to have sound operations, healthy cash flows, and a balance sheet, which provides the necessary flexibility to invest in our future.

In addition, we continue to pursue initiatives, which will help us offset incremental costs, including tools and technologies that deliver higher labor efficiency in our stores, allowing us to focus more of our team’s number of hours in service of our guests. Cost disciplines beginning at headquarters that's spanning all of our operations based on relentless prioritization and a focus on what's most important.

Our brand development work, which helps us deliver continued strong performance in our highest margin, home, and apparel categories, and the development, testing, and rollout of automation in our supply chain, which will take work out of our store backrooms, and move the bulk of replenishment activity upstream into our distribution centers. While we are already benefiting from these efforts today, we see much more potential over time.

Most notably, our work to optimize and automate inventory replenishment is in the very early stages and we expect to realize the vast majority of potential savings from these efforts over the next few years. But even today because of the depth of our resources, our business is thriving even as we transform our business.

As we've said previously, we believe that this year will establish a sustainable benchmark for our operating margin rate over the longer term as we achieve a balancing point between the rate pressures and opportunities of operating an omnichannel retail business.

In addition, we continue to generate a robust amount of cash, which allows us to fund our current elevated level of CapEx, an attractive dividend, which we will continue to grow every year, and the return of additional cash through share repurchase all while maintaining our debt rating.

So while we are not providing 2019 financial guidance on the call today, I will say that we are optimistic about our ability to deliver profitable growth next year and beyond. We've annualized the meaningful investments in operating income we made throughout 2017 and we are poised to benefit from far greater scale across all of our initiatives, including new small formats, hundreds of additional remodels, the continually expanding reach of our new fulfillment options and a comprehensive change in the way we replenish our store inventory.

But today, as the team will describe in more detail, our teams are focused and ready to deliver an outstanding holiday season in terms of both sales and profitability. Our stores are staffed and the team members are trained. They are equipped with new tools and capabilities to support an unmatched suite of fulfillment options, and we are operating an outstanding assortment of owned, exclusive and national brand items.

And to support these plans, we will deliver a compelling drumbeat of marketing and holiday promotions designed to keep Target top of mind with our guests throughout the holiday season. While continuing to focus on delivering consistent value by ensuring we are priced right daily.

With that, I'll turn the call over to John, who will provide an update on our rollout of new fulfillment options, investments in new and existing stores and plans to deliver outstanding service for our guests for this holiday season. John?

John Mulligan

Thanks Brian, and good morning, everybody. As we've said many times, we are in the process of making meaningful changes to Target’s business and operating model and that effort is far from complete. But last year, when we had just announced this plan at our Investor meeting, we often spoke about how eager we were to move beyond the planning stage and get to the execution phase. That way all of us could see what was working, what needed to change, and what we could accomplish faster.

Today, we have clearly reached the execution phase and there are many data points that show we are making great progress, but there is no better metric than traffic, which has been growing in the last couple of quarters faster than I have seen in my time at Target.

As Brian said, there is no way to fully isolate the benefit of everything we're doing separately. But the one initiative that we can best measure in isolation is our remodel program. Since we can compare newly remodeled stores to a set of control stores, both before and after the remodel is completed.

When we perform that analysis, we continue to measure incremental comp sales growth in the 2% to 4% range. Consistent with our goals, when we launched the remodel program, and given that we completed more than 300 remodels this year, the benefit of that kind of lift in that many stores is one of the many reasons we are optimistic about the upcoming fourth quarter.

A piece of unexpected good news is that we have seen a measurable incremental lift in the second year of the remodels we completed more than a year-ago. This benefit was not assumed in our planning for these projects and represents another reason for our optimism about the next couple of years, when we expect to complete another 600 remodels or more.

On the fulfillment side, the progress we have made this year is truly amazing. At this time a year-ago, we're in the early stages of testing Drive-Up in about 50 stores here in the Twin Cities. Today, we offer this service to nearly 1,000 stores and the ability of our team to deliver consistently outstanding service while scaling up at that pace is remarkable.

Drive-Up continues to receive the highest Net Promoter Score of any service we provide. We measure it every month and has been consistently in the mid-80s to low-90s. Early analysis show that a meaningful portion of our Drive-Up orders or either incremental or taking the place of demand that would otherwise have been Shipt to guests homes. Obviously, given the cost of last mile shipping, we like the economics of Drive-Up much better and our guests are clearly happy as well.

Shipt has rolled out even more rapidly than Drive-Up. After all, we purchased the company less than a year-ago and today it is operating in more than 250 markets, making an accessible to nearly two-thirds of the U.S. population. As of today, Shipt shoppers are fulfilling guests' orders for more than 1,400 Target stores, and a meaningful number of those orders are delivered in less than two hours.

While our ship-from-store capability was rolled out several years ago, it also continues to grow rapidly. For the third quarter, in which overall comparable digital sales grew an impressive 49%. Our ship-from-store volume more than doubled, while other shipment modes were nearly flat. As we have said many times, the ability to ship from a nearby store is a win-win.

Compared with shipping from farther away, shipping from store provides speed for our guests, while dramatically reducing the average cost per shipment. But while Drive-Up, Shipt, and ship-from-store are our newest capabilities, it's important to remember that we offer our guests several additional options. In-store pickup continues to grow rapidly and it reliably accounts for about 15% of our digital volume. We're also seeing strong growth in Restock, our next-day delivery service of household essentials.

And finally, let's not forget the conventional in-store shopping, which still accounts for the vast majority of our volume, continues to grow and delivers high levels of guest satisfaction.

Before I turn the call over to Mark, I want to talk about a couple of ways our team has been preparing for the upcoming holiday season. First on inventory, as you saw in our released this morning, our inventory position was up about 18% compared with last year.

Consistent with our discussion on this call three months ago, this end of quarter increase is being driven by a few distinct factors that I want to highlight. First, and obviously, we are buying into the strong sales growth we've been seeing and expect to see in the fourth quarter.

Second, from a timing perspective this year, we'll have the maximum number of days between Thanksgiving and Christmas that can occur on the calendar. As a result, our peak inventory position is happening relatively early this year, causing more of it to be reflected on the third quarter balance sheet.

And finally, as you know, the Toy category sees a bigger than average holiday season peak relative to most other categories. So you're also seeing our investment to support that sales peak in Toys. Altogether, we are comfortable with our inventory position and we feel well prepared to support strong performance in the upcoming holiday season.

Lastly, I want to talk about our seasonal hiring in our stores readiness for the holidays. I'm happy to announce that despite very tight labor market conditions across the country, we have achieved our goal to hire 120,000 seasonal team members, which is up from a goal of 100,000 a year-ago.

Now that we have these new team members on Board and ready to help us for the holidays, we are providing them with improved training tools and processes, allowing them to be trained and productive in about half the average time compared with a year ago.

So as I turn the call over to Mark, I want to give a shout out to the team. We've asked a lot of them this last year and I am so grateful for the way they have delivered because of their hard work, our stores are looking and operating better. We have new convenient fulfillment options available in our stores, coast-to-coast.

We are operating hundreds of new and remodeled stores, which are guests love. And we have a supply chain that's supporting everything from behind the scenes. I'm sure the team feels like they've already done a year's worth of work in the first three quarters of the year, but I also see every day that they are energized and ready for what's coming in the next few weeks. We say it a lot because we know it's true. Target has the best team in retail.

Now, I'll turn it over to Mark, for his recap of our third quarter performance and our merchandising and marketing plans for the holiday. Mark?

Mark Tritton

Thanks John. As I mentioned in our last quarterly call, on the merchandising team, we continually focus on maintaining a sense of balance in our approach between value and inspiration, satisfying wants and needs between unique owned brands and quality national brands, and offering compelling deals while being priced right daily. Our third quarter performance reinforces our confidence that we are successfully maintaining that sense of balance.

From a category perspective, we are really pleased with the third quarter performance of our highest-margin Home and Apparel categories as both categories saw comp growth just below the company average. In Apparel, we saw particular strength in Baby as well as Jewelry and Accessories and Men's. Growth in Home was led by outstanding comps in our home decor assortment. Hardlines saw even stronger performance, comping in the high single-digits this quarter. This was led by Toys, which saw comp growth of more than 20%.

As you know, we've invested in the Toy category this year given the recent closures of Toys "R" Us stores around the country. So far this year, our Toy results have exceeded their expectations in terms of sales and share. Beyond results in our most discretionary categories, we are also really pleased with growth rates in our less discretionary Essentials and Beauty and Food and Beverage areas.

We saw particular outstanding performance in Essentials and Beauty, which grew faster than the company average. Within this category, we saw double-digit growth in Baby, which again is also benefiting from the closures of Toys "R" Us and Babies "R" Us towards in the U.S.

In addition, we introduced three new innovative owned and exclusive brands in the quarter: Quip and Native in Personal Care; and our new Essentials-owned brand smartly, which is designed for the younger budget-conscious guest who lives in smaller spaces. In Food and Beverage, comp sales grew about 4% in the third quarter, consistent with our second quarter performance.

Within the category, we saw strong encouraging results in our owned brand assortment, along with double-digit comps again in adult beverage. While it's important to focus on our absolute growth rates, our team also maintains a disciplined focus on market share metrics, which indicate Target’s relevance against our competitive set. On these measures, we saw another quarter of consistent strong performance.

Third quarter data showed we continue to gain meaningful share across every one of our core merchandising categories and nearly all of the subcategories beneath them. This reinforces what we have been saying for some time. The traffic is a key measure for us because whenever we gain a new trip from our guest, they tend to shop multiple categories, lifting performance across the board.

It's also important to maintain a balance between share gains in our most discretionary and less discretionary categories. That's because while we always want to shine brightest during key seasonal moments like Back-to-School, Back-to-College and Halloween, it's the Essentials, Beauty and Food and Beverage categories that sustain our traffic and sales between the biggest seasonal events.

Importantly, in the third quarter, with all of our categories during their parts to deliver traffic, we successfully comped over several prominent owned brand launches in the third quarter of last year. But now let's look ahead because even though we are really pleased with our performance so far this year, I want to share while we are even more excited about our fourth quarter and holiday seasonal plans. After all, while Target is a guest destination during holiday periods year round, we're entering by far the biggest holiday season of the year.

As always, we are ready to deliver inspiration, convenience and unbelievable deals to our guests this season. And we'll support it all without holiday ad campaign, and this year's theme, Gather Round, which celebrates all the ways we choose to spend time with family and friends during the season and make it easy to do so. And obviously what Toys is important all year long, it rises to a whole new level in the holidays as we typically see half of our annual toy sales in the fourth quarter.

This year given the opportunity I outlined earlier, we've really upped our game. In 500 stores, we've added more space for toys and in more than 100 locations; we’ve completely remodeled that section of the store. Across all of our stores, we've set up new displays and deepened our inventory, adding more than 2,500 new and exclusive toys for the season, doubling the newness we introduced a year-ago.

In addition, we've planned for 25,000 hours of family, friendly events in our stores and we've gone all out with this year's kids gifting catalog at nearly 90 pages, kids of all ages will be able to find at least one must have gift and likely many more.

This year to make the process even easier, we've added digital capabilities that simplifies shopping the catalog. Using our Target app, you can simply scan any of the pages in the catalog and instantly add any of the items from the page into your shopping cart or wish list easy.

Beyond Toys, we’re featuring more than 30 curated grab-and-go gifting displays in our store this season. These displays featured more than 1,400 mostly exclusive items, most at prices under $15, ranging from pops of color in cold weather accessories to everything you need to create a cozy winter escape.

We also have featured this assortment on our gifting hub on target.com, which features interactive menus to make it very easy to find the perfect gift for everyone on your list. And again, based on last year's success, we're bringing back our seasonal Wondershop again this year. This winter wonderland features unique items to trim the tree, lux gift wrapping supplies and sweet indulgences in food.

In select stores this year, our Wondershop includes a personalized gifting station offering guests the opportunity to create a truly unique gift for under $20 by custom printing a recipient's name or initials on any item in a unique assortment of stockings, ornaments, and gift sets. Of course, throughout the season, our guests will find more than 20 new owned and exclusive brands that we've launched over the last two years.

This will be the first holiday season in which we featured our new Umbro, Universal Thread, Prologue, Wild Fable and Original Use brands in apparel, our Opalhouse and Made By Design brands in home as well as Heyday in electronics. So it's clear we have a lot more in-store for the holidays. But guests are focused on more than the assortment at this time of year, everyone loves the deal and we are more than ready to earn some of that love.

After all, Black Friday is only a few days away and we've got a killer lineup of must-have items and prices. But a key part of feeling good about a deal is also enjoying the experience. That's why we're focused on providing ease as well as excitement for our guests this Black Friday. Once again this year, we are giving our REDcard holders early access to many of our Black Friday deals and target.com guests will be able to shop out Black Friday deals on Thanksgiving morning.

Beyond having items just shipped to their homes, online guests have the option to order items for pickup and drive up as well. And of course, this holiday season will be the first one featuring free two-day shipping with no minimum order and personal shopping with Shipt; in our stores, which opened at 5:00 PM on Thanksgiving Day will position team members in the busiest areas of the stores equipped without Skip-the-Line technology to allow guests to pay for their items anywhere on the sales floor.

We've been testing this capability since earlier in the year and we have rolled it out across the chain in time for the holiday season. But Black Friday is just the beginning. We'll be offering great deals throughout the season, including our popular weekend deals and Cartwheel Daily deals.

But let's not forget Cyber Week. Once again on Cyber Monday, we will offer 15% of the majority of our assortment, will follow that blockbuster offer with great deals a week including daily offers on apparel, home items, personal care, beauty and electronics.

And finally, as if the arrival of the package from Target isn't enough, we've recently rolled out new shipping boxes on target.com. These boxes are unmistakably Target and feature our iconic Bullseye Mascot. This is just one small way we are focused on making the everyday special for our guests throughout the holiday season and beyond.

So I want to thank the team for everything they've done to prepare for this moment. To say it takes the ability to pull off the holiday season is an understatement, it requires cost coordination alignment across all of that teams, including merchandising, marketing, stores, supply chain, technology. That's just the beginning of the list. But its work we loved during our favorite time of year, a time when everything comes together in service of our guests and now we feel ready and can't wait to see how we delivered the holiday season.

With that, I'll turn it over to Cathy, who will provide more detail on our third quarter financial performance and outlook for the rest of the year. Cathy?

Catherine Smith

Thanks Mark. Our third quarter performance was right down the middle when compared to our expectations on both the topline and the bottom line, and of course when you look at our growth compared with last year, you can see that our team continues to deliver really outstanding performance.

Third quarter comparable sales grew 5.1% just above the 4.8% pace we established in the first half of the year. From a channel perspective, comparable sales grew more than 3% in our stores and 49% in our digital channels. This is the strongest digital comp we’ve ever reported and it demonstrates the positive impact of everything we're doing to deliver convenience, speed and reliability regardless of how our guests choose to shop.

From a traffic and basket perspective, third quarter comp growth was driven by a traffic increase of 5.3%, offset by a very small decline in average ticket. As we've described in prior quarters, both of these metrics reflect and increasing penetration of smaller, quick and fill-in trip, which are growing much faster at Target than for the industry overall. This trend reflects the guest response to our work over the last couple of years to enhance convenience and ensure we are priced right everyday, which is reinforced by our Target Run and Done marketing campaign.

Beyond comparable sales, our total sales growth of 5.7% reflects a new store contribution of about 60 basis points. As Brian mentioned, these stores deliver very high sales productivity, which allows them to make a meaningful contribution to our growth even as overall square footage is down slightly compared with last year.

Our third quarter gross margin rate of 28.7% was lower than our expectations. This was the result of higher than expected supply chain costs driven by digital fulfillment and the cost of receiving and processing a larger holiday inventory position compared with a year-ago.

Our third quarter SG&A expense rate was about flat to last year. This reflects continued investments we're making in our team, specifically hours training and wages, which allow our teams to provide new and enhanced experiences in our stores. These investments are being offset by continued cost discipline across the enterprise as we continually work to increase efficiency and eliminate lower priority and non-value added work.

Our depreciation and amortization expense rate was down about 40 basis points from last year, reflecting lower D&A dollars combined with the benefit of 5.6% total revenue growth. Below the operating income line, third quarter interest expense of $115 million was $136 million lower than last year. This decline was driven primarily by early debt retirement costs, which we recognized in last year's third quarter.

In addition, it reflects a lower ongoing run rate for interest expense this year, driven by last year's debt refinancing and retirement activity. And of course our effective income tax rate was lower this year, reflecting the ongoing benefit of last year's federal tax reform along with the benefit of some discrete items. Altogether, this performance led to GAAP EPS of $1.16, up more than 33% compared with last year and adjusted EPS of $1.09, up more than 20% from last year.

Turning to the balance sheet, our inventory at the end of the third quarter was nearly $1.9 billion higher than a year-ago, driven by two factors, John highlighted earlier. However, accounts payable, were nearly $2 billion higher than a year-ago, meaning this entire increase in inventories has been funded by growth in payables.

Payables leverage has been a positive story for more than a year now, providing a beneficial tailwind as we invest to transform our business. Beyond investments in inventory, we continue to have ample capacity to fund robust capital investment and return cash to our shareholders.

In the third quarter alone, our CapEx was just over $1 billion, we returned more than $300 million in the form of dividends and more than $500 million through share repurchase, all within the limits of our middle A credit ratings.

And lastly, our after-tax return on invested capital was 15.8% for the trailing 12 months through the third quarter, up from 13.4% a year-ago. As a reminder, this year's ROIC calculation reflects the discreet benefit of last year's federal tax reform relating to the reevaluation of our deferred tax liabilities.

Excluding this discrete benefit, after-tax ROIC was 13.9% over the last 12 months. This is about 50 basis points higher than a year-ago and demonstrates the impact of all of our initiatives combined with a benefit of a lower ongoing tax rate resulting from the passage of federal tax reform.

Now let's turn to the outlook for the fourth quarter and the implications for our full-year financial results. On the comparable sales line, we are expecting fourth quarter growth of around 5% consistent with what we have delivered year-to-date.

On the operating income line, we are looking for a small rate decline compared with last year. This outlook reflects continued rate pressure on the gross margin line although not to the same degree as we saw in third quarter.

Regarding SG&A and G&A expense rate, we are expecting relative stability compared with last year. This performance supports an expected range for full-year adjusted EPS of $5.30 to $5.50 and a GAAP EPS range of $5.41 to $5.61. The expected range for this year's adjusted EPS represents 13% growth at the lower end and 17% at the higher end. And of course, this range is ahead of our expectations going into the year.

As we've seen better-than-expected traffic and sales so far this year, our business has delivered better-than-expected bottom line performance even as we continue to make meaningful investments in our transformation.

Before I turn it back to Brian, I want to cover one housekeeping item. Consistent with last year, we plan to issue an update on our financial performance following the holiday season. This year, we have schedule that update for Thursday, January 10, and we look forward to speaking many of the after that announcement.

And finally, I want to thank you for your time today and your continued engagement in our story. This is an incredibly dynamic time to be in the retail business. As we look across the landscape, it's becoming clear that those of us who have the resources to invest and the ability to adapt quickly are seeing the benefit in our traffic sales and financial performance. For us, it's a vivid reminder of the benefit of maintaining a strong balance sheet and sound operation while also maintaining a relentless focus on our guests and their expectations.

With that, I'll turn it over to Brian for some final remarks. Brian?

Brian Cornell

Thanks, Cathy. Before we move to your questions, I want to start by letting you know that we plan to host our 2019 Financial Community Meeting in New York City on Tuesday, March 5. Our Investor Relations team will send out more detailed information in January, but we want you to have a date as you plan for next year.

So now before we get to your questions, I want to step back and recap our journey, since the Target 2017 Financial Community Meeting. At that meeting, we talked about the need to invest both capital and operating margin to transform our business and position Target as a relevant and successful retailer for decades not months or quarters. We did so with the confidence that we're taking the right long-term steps for our business. And we had the conviction that over time, our shareholders would look back and appreciate our long-term perspective.

So today, as we're entering the fourth quarter of only our second year in this effort, I hope you're already happy with what you're seeing. Based on what we delivered in this year, combined with our fourth quarter expectation, we are positioned to deliver our best comparable sales growth and more than a decade and establish a new high for Target's earnings per share.

It's great to be in that position in only the second year of this effort, but there's a lot more to do. After all, when we embarked on this effort, we described 2018 as the transition year. As we get ready to move into 2019, we're ready to accelerate and scale beyond that transition period.

Next year, we'll be positioned to complete our rollout of Drive-Up and Shipt, remodel and build more exciting stores, and make meaningful progress in our work to modernize our supply chain and radically change the way we replenish our stores. While the supply chain effort will take place behind the scenes, they can deliver a host of important outcomes, enhancing our liability and reducing costs.

Importantly, this effort will free up labor in our stores, providing more time for our team members to serve guests on the sales floor and support all of our different options for digital fulfillment as we continue to drive profitable growth and build even greater loyalty with our guest. So thank you for your time today.

And now we'll move on to your questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Seth Sigman with Crédit Suisse. You may go ahead.

Seth Sigman

Thanks a lot, and good morning, guys. So if we just focus on the quarter, your sales and EPS came in at about the midpoint, but your EBIT margin was below guidance. Seems like it was mostly gross margin, but just hoping that you can elaborate on what was different versus your expectations. And then as you think about the EBIT margin implied for the fourth quarter, I think you said down slightly, Cathy, so it seems to be down a lot less than the third quarter, maybe even up at the high-end of the range for the year. So just curious, what is different in the fourth quarter relative to the third quarter? Thanks.

Brian Cornell

Why don't I start now, and then I'll turn it over to Cathy. I think as we look at our absolute performance in the third quarter, we were right on our expectations. We continued to have another very strong quarter where traffic grew over 5%. We had very strong overall comp performance of 5.1%, an acceleration versus the first half of the year. We delivered digital growth of 49%, our strongest growth rate ever. And we did grow EPS by over 20%, while growing market share in every one of our major categories.

So if I look at our performance in the quarter, we're executing versus the plan we laid out in the beginning of the year. We're seeing a very strong response to our store remodels. Our new small formats are performing very well in each and every market. We continue to drive very strong performance with our new owned brands, and the investments we're making in our team are driving exceptional responses from the guests. So as we look at our performance in the quarter, we're right where we expected to be and we're set up well for a very strong holiday season. Cathy?

Catherine Smith

Yes. So Seth, as we said, we expect a small rate decline in the fourth quarter. First off, we expect a 5% comp, so we can start there, and then a small rate decline in the quarter. And as you said, we pointed to – we do expect continued pressure in gross margin, but not to the same extent we saw in Q3. The biggest difference is our – while we still expect great sales, we obviously already anticipate the mix that we'll be seeing in that business, just like we did last year's fourth quarter.

And we'll see strong digital sales – but we would've seen strong digital sales last year's fourth quarter, so the year-over-year changes are a little less as you can imagine. And then lastly, we're moving – we moved a lot – we received a lot and moved a lot of inventory in the third quarter in anticipation of the fourth quarter, and so we would expect those costs to not be as strong.

Seth Sigman

Okay. That's helpful. Thank you for that. And then just, Brian, you highlighted a number of positives particularly on the sales line. And there are clearly cost to achieve that, right, and drive that higher share that you're seeing. So can you just help us better understand some of the initiatives to help offset those cost pressures that you alluded to earlier? I'm not sure if those are already in play, if they're already happening, but just help us better understand when that can have a more meaningful impact and support that profitable earnings growth that you were talking about earlier? Thanks.

Brian Cornell

As I mentioned in my earlier comments, obviously we're in the very early stages of the transformation of our supply chain or replenishment systems, very early stages of testing automation and improving overall processes. Those will take place over time. We've also rolled out a number of new fulfillment options. And while we know that throughout the year, Ship to Home is very important to our guests, as we continue to build awareness around other fulfillment options, order online pickup in-store, our new Drive-Up capabilities in almost 1,000 locations, our Restock program, as well as our membership program through Shipt. Those are going to be very important components that help to shape margins over time.

So we're in the very, very early stages, both from a supply chain standpoint, the transformation of store replenishment, but also in building awareness of the full suite of fulfillment options that we now have at Target, so those are going to take place over the next few years. We've been very consistent in saying we're in the very early stages. But those benefits are in front of us, and we expect to see those impact our business in a profitable way over the next two to three years.

Seth Sigman

Okay. Thank you and good luck.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Matt McClintock with Barclays. You may go ahead.

Matthew McClintock

Hi. Yes. Good morning, everyone.

Brian Cornell

Good morning, Matt.

Matthew McClintock

Brian, you talked about a lot of these fulfillment initiatives and you specifically highlighted a lot of strength with Shipt and Drive-Up. And I was wondering, could you maybe give us a sense because you did say that Drive-Up is incremental. Can you give us a sense of how often these consumers are actually choosing to use Drive-Up or Shipt? And can you give us a sense of how many of these people are new customers or are the existing customers? Are you getting people who normally make 12 trips to Target a year doing a 13th or 14th? Or are they doing more like 16th or 17th trip, four extra trips because they're now using Shipt? Thanks.

Brian Cornell

Matt, it's something that we're looking at as we sit here today, but we're in the very early stages. Again, it was only 12 months ago we had Drive-Up in 50 locations. We've been rolling that out across the country over the course of this year. We've rapidly expanded Shipt to over 200 markets, but we're still in the very early stages.

So we're still building awareness. We literally just started our advertising campaign to talk to our guests, to talk to the consumer about this new suite of fulfillment options, so those are the metrics we'll be looking at over time, and they will continue to contribute to our digital growth. But it's still very, very early, and we expect to build awareness during the holiday season and throughout 2019.

Catherine Smith

Matt, I'll pile on a little bit. John shared in the prepared remarks too, while we're seeing two really positive things out of that effort out of Drive-Up and Shipt, specifically though in Drive-Up, and that is we're seeing incremental guest making incremental trips, to your question, and we'll continue to measure that.

But secondly, is, we're seeing them [shift] what would have been a two-day free delivery into coming by our stores because they're so well located. And we can make them pull right into our parking lot and bring it to their car in less than two minutes. And so both of those are really good back patterns as we think about the further economics longer term.

Brian Cornell

But Matt, we'll be in a much better position 12 months from now to really understand how it's shaping guest behavior, the incrementality. How it drives additional trips, we're still in the very early stages. But as Cathy just referenced, the early indicators are quite positive.

Matthew McClintock

Perfect. If I get a one quick follow-up, just on SG&A clearly, you're still making a lot of investments, but you're starting to lap a lot of investments on acceleration of investment that you're making. I'm talking specific to wages. As we see comp store sales remain in pretty strong territory, especially given your very strong traffic, is it possible that as we get into early 2019 that we could start to see a little bit more of leverage from some of the strength in comps if it stays?

Catherine Smith

Yes. So as you said, we're continuing to invest. We think having the best team in Retail is really important, so we'll keep making those investments on our path to $15 by 2020 as we said. But what you saw with us being essentially flat this quarter is that we are starting to find some of those offsets. And to your point, we'll continue. We think a lot of those benefits of removing replenishment out of the basket of our stores and back upstream and automating them, will help to continue to offset some of those costs.

Brian Cornell

But Matt, those investments we've been making on our team are clearly one of the big drivers behind the comp store increases we're seeing in our stores, the traffic we're seeing both from a store and a digital standpoint. The team members, first and foremost, are great ambassadors of our brand. They're helping us drive this performance and certainly contribute in the market share gains we're seeing across all of our categories.

Matthew McClintock

Thank you very much. I really appreciate the color.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Edward Kelly with Wells Fargo. You may go ahead.

Edward Kelly

Yes, hi. Good morning, guys. Could we just start with the gross margin? Could you just provide a bit more color on the gross margin performance this quarter? Cathy, you did mention that it was a bit disappointing. What would be the impact of digital fulfillment, mix, how much of an impact was the growth in inventory? And just any color there I think would be helpful.

Catherine Smith

Yes. So as we said, it was a little lower than we had anticipated, really driven by two things; the supply chain costs that we're seeing because digital came in at 49% growth, which was higher than we had anticipated, so therefore, we're going to see a little bit more pressure there.

And then just the expense related to the timing, the size and timing of the inventory receipt because we have the earliest Black Friday and Thanksgiving that the calendar will allow, and so that caused us to be moving a lot of inventory in third quarter, which obviously showed up in our inventories sitting in our balance sheet as well.

And so the cost, the gross margin pressures were really split between those two. We are partially offsetting them as we said we would with some of our merchant initiatives, so thinking about those cost of goods sold savings that we've been working on all your that are actually pretty meaningful. So we are seeing some offsets just not obviously to the extent we needed.

Edward Kelly

Okay. And then Brian, just a question for you, and as you think about 2019, and obviously it's early, but you sound positive about the opportunity to deliver profitable growth. Are you implying stable EBIT margins with this? And can you talk a bit more just about how you're thinking about balancing investment in the business with that goal? If you think about 2018, it was a bit harder to deliver EBIT growth despite what was very good comp growth. So what changes next year?

Brian Cornell

Yes. Well, Ed, we're not going to give 2019 guidance today. But we are very excited about what's upcoming in 2019 and 2020, based on the response we've seen, the store remodels, next year, you can expect us to remodel similar number of stores. We'll continue to open up highly productive small-format stores.

Mark and the team have some exciting new owned brand introductions. We'll continue to scale and build awareness around our fulfillment portfolio, which makes Target the easiest place to shop in America.

So as we continue to build awareness around our fulfillment options, begin to scale more remodels, moving into new catchments with new small formats, the elevation of our brand portfolio, we're very excited about 2019 and beyond.

And as I've said many times now, we're still in the very early stages of this journey. And while we feel great about the progress we've made in 2018, we're certainly ahead of schedule. We're certainly driving very strong traffic in market share gains. The bulk of the work is still in front of us. So that's why we're so confident about the path that we're on and excited about 2019 and 2020 and beyond.

Catherine Smith

Ed, as I think about it, the third quarter was an important leg in this relay race that we're on because of the operational progress we made throughout the course of the business. But now we're to the point where we have our full suite of fulfillment options that we can now really start delighting our guest but really aligning that mission to closest to the store for the high-frequency things will that makes it easier for them to pull in to our parking lot and tick up their diapers or their dinner to go whatever it is.

Now with that full suite of fulfillment options, with delight our guest, first and foremost, but secondly, is we'll start to move those missions closer to the store on those times when it matters, especially those higher-frequency lower margin categories.

Edward Kelly

Excellent. Thank you.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Robbie Ohmes with BofA Merrill Lynch. You may go ahead.

Robert Ohmes

Good morning. Thanks for taking my question. Cathy, I wanted to just follow-up on the gross margin fee. I think the expectation was that they'd be up in the back half, and I think you guys have said stronger in the 4Q than 3Q. As we look at the fourth quarter, in the gross margin being down less than it was in the third quarter, maybe a little bit more color on what the – maybe the fourth quarter digital growth assumption is? And sort of what changes – is it basically that the pressure from bringing all the inventory into the third quarter alleviates in the fourth quarter? Maybe a little bit more color there would be helpful?

Catherine Smith

Good morning, Robbie. To your point, we knew that we have a lot of cost of goods sold initiative that'll start to come through back half of this year, which are exactly doing what we said. The strength of digital at 46% this quarter, on top of last year's in the 24 range is a pretty big change. So that is some of the pressure you're seeing in Q3. When we move into Q4, we did a 29 digital comp last year in the fourth quarter, and so we're anticipating still strong fourth quarter digital comp as you'd expect.

Now we can offer the full suite of fulfillment options we think ask to going to choose some of those that are a little bit more convenient, they can come by our stores and the economics are better. So that's one, but -- so one is we'll see the year-over-year digital growth quite as big change that we're expecting in the fourth quarter.

But more importantly, we still see those much initiatives and we are starting to see some of those cost of goods sold coming through there in the fourth quarter. So those are the exchanges. And lastly, the amount of inventory will move in Q3. Obviously, we're here and ready for the holidays, come shop and shop often in Target, so we're going to have a really good fourth quarter in holiday.

Robert Ohmes

And did China tariff play any role in - bringing in more inventory in the third quarter? And maybe you can update us on how you're thinking about tariffs for the fourth quarter and for next year?

Brian Cornell

Yes. Let me start Robbie. We clearly were planning well ahead for a very strong fourth quarter. We wanted to make sure we had the inventory in our system to meet the very strong demand we're anticipating for the fourth quarter. And there's really no update on the overall tariff front. We continue to watch it each and every day, as I know you do. And we're looking at what levers we can pull to make sure we minimize the impact for our guest. So we'll watch it very carefully. Obviously, it's a very fluid topic right now. But our focus is on executing the fourth quarter. And we got the inventory and the plans in place to make sure this is a very strong fourth quarter for Target.

Robert Ohmes

Great. Best of luck for the holiday season.

Brian Cornell

Thank you. We appreciate that.

Operator

Thank you. The next question comes from David Schick with Consumer Edge Research. You may go ahead.

David Schick

Hi, good morning. Thanks for taking my question. Brian, a couple of times in your initial discussion and then even in Q&A, you're talking about the very early stages of these investments that the consumer is enjoying with choices, with merchandising, delivery choices, et cetera.

But I guess, if you look at the history of retail, oftentimes this high level of investments is made when there's a weaker major players that you can sort of finish off and enjoy a better margin over a longer period of time. How do you think about that long-term aspect of the spending curve given the capabilities and the competition between major players, including yourself?

Brian Cornell

Well, in some ways, you've answered the question for me. We certainly have been talking for several years now about the opportunities that are in the market as many of our competitors shrink or liquidate and go out of business. And we think there's sizable market share opportunities as we continue to see the rationalization of the retail landscape. But the investments we're making are still in the very early stages. Well, it feels like we've been talking for years about remodeling stores.

The fact of the matter is, over the last couple of years, we've remodeled just over 400 stores. We've got many, many more stores that we're going to touch over the next couple of years. We're excited about small formats, but we've got a portfolio of new catchments that will be entering over the next couple of years. The work on owned brand has been very well-received by the guest, but those brands are only going to build greater awareness over the next few years.

And importantly, from a fulfillment standpoint, while we've been carefully testing and building platforms and capabilities, it's really just now that we're starting to extend these fulfillment options at scale. So that's going to build over the next couple of years. So as we go into 2019 and 2020, we'll have remodeled even more stores. And we know as we remodel stores, we see a very positive lift. So stores are driving additional footsteps each and every week. It's helping us capture market share in those neighborhoods.

Our small format stores are incredibly productive right now and are being incredibly well received by the guest. So when we combine the work that we're doing in-store with the progress we're making from a fulfillment standpoint to meet the needs of the guest, no matter how they want to shop and make sure that our stores were at the center of that component, we believe there's opportunities for further market share gains that continue to drive very strong traffic and comp store sales. And the scale of these initiatives, which over time will reduce our cost and continue to make Target the easiest place to shop in America.

So we're in the very early stages. And we'll be at a higher level of scale in 2019 and build off of that. But if this was a football game, since we're in the season, we're still in the first quarter, but I like the point that we're putting on the board.

David Schick

Well, thanks very much. I guess to continue that. Good luck in the all important drive starting…

Brian Cornell

Thank you.

Catherine Smith

Thank you.

Operator

Thank you. The next question comes from Edward Yruma with KeyBanc Capital Markets. You may go ahead.

Edward Yruma

Hey, good morning. Thanks for taking the question. I know that on the second quarter call, you talked about being light on inventory, obviously ended in a different inventory position in the third quarter. Were you short of inventory intraquarter in the third quarter? And do you think that impacted sales? And then second, you talked a lot about, how some of these urban stores are helping reach a new consumer? Can you give us some color on the profitability or the trends you're seeing on some these locations? Thank you.

Catherine Smith

Maybe I'll start, if it's okay, Ed, with the new – the small formats, and then John maybe can add into the inventory question. So on small formats, yes, first off, we really like that we're able to access guest that haven't had access to Target in the past. And so that has been terrific. We continue to like what we're seeing out of the small stores, they have great sales productivity as we referenced in the call earlier. And we do see really good returns. So we measure them against the same IRRs, and the same hurdle rates we do all of our investment, and they have really good returns. So we'll continue to see that. You'll see us continue to open new and small formats.

John Mulligan

On inventory, we have felt good about inventory really the whole year long about where we've been on inventory. There's been some businesses we've chased into. Like Toys, we have aggressively chased into. And Baby, which have the result of what's going on in the marketplace there. But I wouldn't describe our inventory ever as light. I think we were well positioned at the end of the second quarter. We feel really good about our position right now. We knew we would peak inventories relatively early given when Black Friday falls this year. And of course, you saw that on our third quarter balance sheet. But overall, we feel really good about where we've been positioned on inventory throughout the year.

Brian Cornell

And if we go back to the new small format, I think it's important to point out, this is allowing us to reach a guest that in the past we hadn’t been able to serve. So when you think about the recent quarter and approximately 60 bps of revenue contributed by these new small formats, that's largely incremental. These are neighborhoods and catchments where we haven't been participating before. It's a guest that wasn't able to shop with Target on a regular basis. So not only are they already contributing to our revenue, it's opening up a door for our new guest to shop at Target. And the reaction, as Cathy has referenced, has been very positive. We're seeing incredible productivity out of these stores, and we are reaching a guest in neighborhoods where we've never completed before.

Edward Yruma

Great. Thanks so much.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Peter Benedict with Baird. You may go ahead.

Peter Benedict

All right, thanks guys. Just to circle back quickly on the gross margin. The fulfillment cost pressures, I guess, from Digital in the third quarter, is it safe to assume that they were a little more than what you saw sequential in the third quarter, which I think third quarter was around 60 basis points. Is it fair to assume it was more than that?

Catherine Smith

Peter, you must be talking about second quarter. So we did see – I'm not sure. So let me just address the third quarter gross margin. As we said, it was obviously lower than we had anticipated or the deterioration was. Really, the biggest piece of that is the supply chain costs related to the digital fulfillment to support that 49% comp. The next biggest piece of it is really around the supply chain cost to process, receive and process the inventory ahead of the holiday. And so I'm not sure if that's helping where you're going.

Brian Cornell

I might add. We've circled around this a couple of times. We did move a lot of inventory in second quarter, and we did it at a higher cost. Do you guys all know there's transportation pressure out there? Our first and foremost objective is it relate to transportation was ensuring that we secure the supply we would need to move our goods. And so we did that. And we will find ways to offset that incremental cost through other ways as we go forward. But we're moving a lot of inventory, and it was at a higher rate than we paid last year. So both of those factors applied to what Cathy is talking about.

Peter Benedict

That's helpful. And I guess, as we look to the fourth quarter again, I'm sorry to stick with the gross margin, I guess the expectation in the fourth quarter in gross margin, is it safe to say similar to what you saw in the first half of the year? I think it was down around 20 basis points range. I mean, is that the level or the magnitude of improving you're expecting in the fourth quarter?

Catherine Smith

Yes. I don't think we'd go specifically what we're expecting for the fourth quarter. What we said is we'll see some continued pressure, but it won't be near the extent we see in the third quarter.

Peter Benedict

Okay. That’s fair. Just last question, Cathy, just in terms of the tax rate, I know it's dynamic, but maybe what your range of assumptions are for the fourth quarter in terms of tax rate?

Catherine Smith

Yes. So I would think more of a normalized – think about a new statutory rate with the Federal tax reform is probably a better place. So if you just take the third quarter, we obviously on print was 13.6% tax rate, which is incredible. I'll stop there. But if you take out the adjustment we made to the previous deferred, we would have been closer to a 19-ish range or so. And so if you start thinking about kind of maybe a normal, that's a better way to think about it.

Peter Benedict

Great.

Brian Cornell

With that operator, we've got time for one last question.

Operator

Thank you. Our last question comes from Greg Melich with MoffettNathanson. You may go ahead.

Gregory Melich

I'd like to talk about two things, basically the loyalty programs, particularly Shipt, any color there in terms of how much of the digital growth that's driving or how many members up to now? I think you mentioned the number of markets. And also, REDcard, it just seems like the penetration there has been sort of stable. Is there anything that you're considering to maybe reinvigorate that? Tell us some of the tests are going on REDcard? That would be really helpful.

Catherine Smith

Yes. So Greg, maybe I'll start and then Brian and John can pile on too. For REDcard, as you said, penetration is about stable. As we said in the past, we know that, that is a great program. They're our highest, most engaged guest, our most loyal guests.

So we actually want to continue to growth that. You're seeing us more exclusive. You'll see it this year with the fourth quarter like we did last year and really make those a special relationship with our guest. However, we also know that, that doesn't speak to everyone.

And so as you know, we've been testing a loyalty program in Dallas, we call it Target Red, which is a non-tender-based program to really have everyone be a part of the relationship with Target. So we're excited about where that's going. We'll continue to test that this next year. But all of the indications are very, very positive. We're seeing really good sign-up and engagement with RED program.

Brian Cornell

John, do you want to wrap this up with update on Shipt?

John Mulligan

Yes. With Shipt, we remain really excited – really proud of how the team has scaled that throughout this year. We're in over 250 markets now in a very short amount of time. We continue to see very strong response from consumers. I think the metric I look at gets me most excited, if you look at mature markets, markets that have been open for over a year still continue to see triple-digit growth in sales, in GMV. So guests continue to engage more and more even in markets where we've been there a long time.

The other thing I would add Greg, to get to your question is the impact on digital growth is relatively modest because we are not reporting GMV. We're only reporting our revenue, which, of course, is quite modest relative to the GMCs – GMV sales that go through Shipt. So the impact there is relatively modest, but we're very excited with Shipt the opportunity now is to begin testing Shipt deliveries on target.com and the opportunity to scale that next year.

Gregory Melich

If I could, I love to follow-up on that, just given the strength in traffic. Have you guys been thinking about ways to monetize that traffic with digital advertising, in particular just given what the trying to move in that direction Amazon certainly over the $7 billion of advertising revenue. How are you guys thinking about using all that data and traffic maybe outside the traditional avenues?

Brian Cornell

It's something we're thinking about each and every day, and it probably leads us to wrap today and invite all of you to join us in the spring for our updated Financial Community Day. So it's something that we’re very focused on, continue to build loyalty with our guest.