Thanks, John and good morning to all of you. We are very pleased with our second quarter financial results which we announced earlier this morning. Our second quarter adjusted EPS of $1.22 is 20.6% higher than last year and $0.08 above the high end of the guidance range we provided at the beginning of the quarter.

We are also pleased that once again this quarter we were able to grow traffic and sales both in stores and in digital channels, even as we were cycling over a very promotional second quarter from last year. Our second quarter comparable sales increase of 2.4% was just ahead of our first quarter performance and consistent with our expectations. Notably about two thirds of this comp increase was driven by a growth in traffic combined with the smaller increase in average ticket.

Second quarter digital sales grew 30% from a year ago slightly below our expectations as we compared against very intense digital channel promotions last year. Digital growth contributed about 60 basis points to our comp sales growth this quarter. Our second quarter gross margin rate was a half a percent point higher than last year. As we continue to benefit from favorable merchandise mix and the comparison over last year’s promotional markdowns. On the SG&A expense line we had an unexpectedly strong quarter as we benefited from discipline throughout the organization along with the impact of expense timing as John will cover in a few minutes. With these results we continue to benefit from very strong cash generation by our core business which enabled us to return a combined $1 billion to our shareholders in the second quarter through dividends and share repurchase.

As we’ve outlined in last several quarters we’re working to define clear roles for each of our merchandise categories and avoiding resources to growing what we call our signature categories; style, which includes the majority of apparel, home and beauty categories along with baby, kids and wellness. While we are still in the early days of this work we’re already seeing a compelling benefit from our efforts. Specifically comp sales in signature categories grew more than 7% in the second quarter, three times our overall comp growth. This performance represents an acceleration from the first quarter when comp growth and signature categories was about doubled Target's overall comp growth.

With strong signature categories performance comps in both Home and Apparel were in the 4% to 5% range this quarter. In Apparel, results were strongest in Baby and Kids along with women's ready-to-wear. Within Home, results were strongest in the core and seasonal including back-to-school. Other categories highlights this quarter included toys part of our Kids focus in hardlines, which saw more than a 12% increase in comp sales. This growth helped offset comps decline in Electronics which is a primary beneficiary of the second quarter promotions last year and we were also seeing soft sales in tablets. Outside out stores, our focus on style was evident as more than 80% of our second quarter digital channel sales growth was driven by Home and Apparel. In Home where digital penetration is much higher than average, digital channel growth have of our total comp this quarter.

Looking ahead we'll continue to work to advance the key strategic priorities we laid out last fall. First on our list is to become a leader in digital, this is critically important because guest research shows that digital relevance drives traffic and engagement across all selling channels. While we're pleased with the industry leading growth we've seen so far this year we have much more work to do and a key asset will deploy is our source. We're already shipping digital orders from approximately 140 stores and by the end of this year we'll be shipping for more than 450 locations.

Ship-from-store capabilities allows us to balance inventory across the network, leverage the capital and labor already in our stores and reach guest more quickly. To highlight the benefits in improved shipping times, this fall we'll begin testing what we're calling available-to-promise in which we'll the guest a specific delivery commitment typically 2 or 3 business days. If the guest orders on a specific date, we believe this capability will drive further increases in digital conversion rates which are already improving rapidly as guest respond to a faster and firmer delivery commitment.

Second on the list of key priorities is working on category roles, beyond our efforts to grow signature categories, we're also focused on testing and learning how we can reposition our food offerings to better serve our guests. While this work won't be complete until next year we're engaged in many small tests throughout the country to gain a deeper understanding of our how guest would respond to potential changes in assortment and presentation. Through guest research, we already know we need to be more clearly highlighting Wellness in our food offering through both assortment and the information we provide. We're also focused on ways to elevate our food presentation and experience to fit the way the guests live and shop.

We know we have an opportunity to provide fresh healthy options and more relevant and localized assortment as our guests responding to healthy choices we're offering today. Within food our market share in Wellness is already doubled our food share overall and this quarter we continue to see double digit sales growth in these important categories. This clearly shows that our guests are already responding when we enhance assortment of natural, organic and better-for-you items in our stores. As a result in the third quarter we'll continue to expand our Wellness assortment in food with new food items in our made to matter collection and nearly 50 new items across 6 categories in our simply balanced brand.

Our third priority is to develop capabilities to offer more localized experiences across our stores and a more personalized digital experience for our guests. While this work is ongoing we're already seeing encouraging signs of the early progress on both fronts. To inform our localization efforts we launched a small test in the Chicago market where we're working with a set of stores to test changes to assortment, presentation and inventory commitments on certain items. In these stores we're highlighting locally relevant items, updating category adjacencies and changing shelf facings to reflect the demographics around these individual stores.

While this test is still early we're encouraged with the guest response so far specifically comp performance in this group of test stores has been 1 to 2 points higher than the rest of the Chicago market and a set of controlled stores. Items featured in the tests are present in 5% to 10% of the guest baskets in these stores and we've seen a meaningful improvement in our guest survey stores for variety of products in these stores. Giving these strong initial results we're working to quickly build on our capabilities and create an operating model that allows us to scale our efforts across a broader set of stores and demographic clusters.

As part of our personalization efforts last year we replaced the third party recommendation engine with internally developed product which incorporates both in-store and online guest history. In 2015, we've expanded the use of engine across our mobile offerings, email, subscriptions and cartwheel. This engine is driving a meaningful increase in conversion compared with our results on the prior third-party product generating incremental sales of $50 million to $100 million so far this year. We've rolled out personalization recommendations to Cartwheel only a few weeks ago but early data indicates the change is driving more than a 10% increase in the number of offers downloaded per user, a critical co-measure of engagement with this app.

Our fourth priority is to test and roll out new, more flexible format in markets where populations are increasing, guest affinity for Target is high and our store penetration is low. This quarter we were very excited to open a new City Target store in Boston literally next door to Fenway Park. And we're pleased with the look and feel of the store and the positive response we've seen from our neighbors. We began work on develop the store a decade ago well before we had smaller formats and for this project we're able to open a full sized store in a dense urban area. However this opening begs a question of the criteria we're using to designate stores as City Targets, a Target Express or simply Target. As a result we announced last month that going forward we will no longer use the City Target or Target Express names on any of these new stores. This announcement doesn't reflect a change in our desire to open stores in urban areas. It simply reflects our goal to become flexible and how we fit into every community with an ability to open up a variety of stores, different sizes and layouts, offer a locally relevant assortment and provide guests with easy access to items from our entire digital assortment through in store pickup.

Our fifth and final priority is to advance our growth initiatives by changing the way we work and becoming a more effective and agile organization. This week we announced several changes to our team including John's promotion to the newly created Chief Operating Officer role and the hiring of Cathy Smith as our new Chief Financial Officer. I am very excited about these changes and confident that John and Cathy will play a critical role in Target's long term success. In the past year I developed a deep appreciation of John's knowledge and insight. And I believe he is the right person to improve our operations. Retail is changing rapidly today than any time in my career and we need to ensure that core operations keep pace with the new ways we're serving the guests. Overtime Target has developed an incredibly complex supply chain, built to serve an outdated linear model in which product flows from vendors through distribution centers to stores. To serve guests today we are becoming much more flexible in a way we fulfill demand for products and services. And this is stretching our supply chain well beyond its core capabilities.

And frankly, as a result some retail fundamentals have started to suffer. Specifically in stocks in our stores have been unacceptable so far this year. And our guests deserve better. In this new role I've asked John to focus first and foremost on improving the capabilities of our supply chain, working across organizational boundaries to understand and address root causes that are hampering day to day execution. Beyond these immediate needs I've asked John to continually assess and evolve our capabilities to ensure our operations keep up with our strategy and a rapidly evolving retail landscape. As we plan to move John into this critical Chief Operating Officer role it was really important to me that we hired a Chief Financial Officer who is a proven leader. Someone capable of upholding Target's strong track record of disciplined financial management. So I'm very excited that we've convinced Cathy Smith to join our leadership team. She served as a CFO at other large organizations including Wal-Mart where Cathy and I were colleagues.

I have the utmost confidence in Cathy as a strong financial and business leader. She'll be an outstanding addition to our leadership team and John and I look forward to supporting her transition into this role. One year ago I was only a week into my new position when I spoke on this earnings call. As I look back at the last year I am very pleased with our progress and confident we're focused on the right strategic priorities because our guests are responding. As we plan for this year we face the daunting challenge of sustaining traffic and sales without repeating last year's promotional intensity. So far this year traffic and sales are increasing, digital growth is far ahead of the industry and signature categories are leading the way, yet we will not slowdown.

We'll continue to invest in newness, innovation and presentation while we focus on maintaining strong execution. We're seeing encouraging results in back to school, and back to college and we'll work hard to maintain that momentum for the rest of the season. Also this quarter we're excited about our new planned program including more than 50 items from our latest design partner Adam Lippes, beyond Adam's design our planned takeover will feature 100s of other products across a broad set of categories. Beyond apparel, accessories, home and pets you'll find planned soda bottles, shampoo, bandages, paper towels and more. We’re pleased with the early reaction and the media buzz and looking forward to rolling out these items throughout the quarter.

Target is also featured permanently in the September issue of Vogue which includes a 21 page insert where we’ve re-imagined some of the most iconic covers by incorporating products we sell. This insert will be digitally shoppable so our guests can go behind the scenes to buy what they see and access additional content. And while that becoming even more important in the fourth quarter we’re already ramping up our support around this year’s hot license products for kids both young and old. For Minions to Marvel, Avengers to Peanuts and of course Star Wars. These licenses are prominent in our assortment of back-to-school backpacks and this fall we will feature them on Halloween costumes, décor, apparel, toys and much more.

Before I end my remarks I want to pause and thank the Target team including the colleagues I met on my recent trip to India who are doing amazing work in sourcing and technology to support our strategic growth priorities. For our team members around the world this has already been a very eventful year and we made changes to our team and our structure to better support our guests. Throughout all these changes the team has remained resilient and energetic where the passion to serve our guest is contiguous. Every day I step back and marvel at the amazing things this team can deliver, iconic marketing, amazing products at an incredible price, fast and easy digital experiences and of course a unique store experience that brings our expect more pay less promise to life every day. None of this would be possible without our great team. And the outstanding results we’ve seen so far this year are a testament to their efforts. Now I’d like to turn the call over to Cathy Smith. Cathy won’t officially begin her role until

September 1st but I'm pleased that she is here today to introduce herself and share a few thoughts about Target and her new role. Cathy?

Cathy Smith

Thanks Brian and good morning everyone. Like Brian I have long admired Target as a retailer and an iconic brand and a great American company. During my career I've had the opportunity to view Target through the lens of a competitor and of course a guest. And now I am really excited and humbled to have the opportunity to join the team as we work to transform how we serve guests while preserving what consumers love about this brand. While I won't start working here until next month I've really enjoyed getting to know the leadership team and I have had the opportunity to meet with many of the members of the finance team this week.

Target's success comes from many things beyond the iconic brand the company has an impressive array of owned and exclusive brands as a guest and someone who loves retail I'm constantly impressed by Target's ability to delivery new, trendy, high quality items at amazingly low prices and I just know there are incredible product design developed and sourcing teams behind those items. In addition in appreciate that Target has just added 1,800 well maintained great looking stores in convenient locations delivering a great shopping experience and near and dear to every CFO's hearts we have a healthy balance sheet which when combined with our strong cash flow generation creates ample capacity to fund robust investments in growth and the return of billions of dollars to shareholders annually through dividend and share repurchases. And lastly Target has its passionate team members who work tirelessly to serve our guests every day and who are proud of their Target.

Let me tell you a brief story, as I was exploring the possibility of joining this amazing company I wanted to move beyond the familiar experience of shopping at my Target so I dedicated a couple of weeks to visit more than 65 stores across 10 states and I drove my family along for most of the ride. I spoke to guests at every store I visited and I can tell you that they are clearly demanding enthusiasts they love Target and they enjoyed sharing their personal stories about why they chose to shop with us.

Before I close I want to say that I'm looking forward to reconnecting with those of you I know and getting to know those of you I don't. I plan to scale my first few months with the team amercing myself in the business to ensure I have a detailed understanding of where we've been, where we are today and where we need to go in the future. With that foundation I look forward to meeting you and hearing your perspective. Now I'll turn it over to

John who will share his insights on our second quarter, financial performance and our outlook for the third quarter and beyond. John?

John Mulligan

Thanks, Cathy and hello everyone. We're really pleased with our second quarter results as virtually every line on the P&L came in at or better than our expectations. Compared with our guidance going into the quarter overall comparable sales were in line with expectations, but the mix of store sales was a bit stronger than expected. Second quarter gross margin performance also met our expectations, but SG&A expense performance was much better than planned reflecting our continued efforts to control costs along with the impact of a timing change in marketing expense. As a result our second quarter adjusted EPS was $1.22, $0.08 above the high end of the guidance range provided at the beginning of the quarter.

Second quarter EPS from continuing operations was $1.21, $0.01 lower than adjusted EPS as pretax restructuring costs and breach related expenses were 1 penny each were partially offset by $0.01 benefit from the favorable resolution of income tax matters. Second quarter GAAP EPS of $1.18 reflects a $0.03 loss on discontinued Canadian operations compared with a $0.25 loss on Canadian operations last year. This year's Canada losses were consistent with our expectations as an increase in our accrual for estimated probable losses primarily guarantee of leases was offset by an adjustment to the tax benefit from the Company's investment loss in Canada.

Our second quarter comparable sales increase of 2.4% was just ahead of our first quarter performance and consistent with our guidance at the beginning of the quarter. Within the quarter, comps were strongest in May and June however this year's monthly pattern was the mirror image of last year's second quarter when the comp growth was strongest in July, which featured the most intense promotions in the quarter. As a result on a two year basis, monthly comp trends were very consistent throughout the quarter. Importantly, transactions were positive both in-stores and online throughout the quarter driving two-thirds of our comparable sales growth. Digital channel sales increased 30% in the second quarter on top of more than 30% growth in the second quarter last year. As Brian mentioned, second quarter 2014 was intensely promotional and those promotions were a key driver of digital channel sales last year.

Looking ahead, we'll continue to focus on achieving our digital channel sales goals through a combination of both traffic growth and conversion improvement. REDcard penetration was 22.1% in the second quarter more than 130 basis points ahead of last year. Portfolio delinquency and write off metrics are at historically low levels and we continue to see increase in payment rates. This means the size of the portfolio continues to slowly decline but better than expected risk metrics are offsetting this impact. As a result profit sharing income on the portfolio was up this quarter compared to last year.

One other note, this week we began accepting EMV or chip-card transactions at all stores across the country. As a result this quarter we will initiate the process of replacing all of our REDcard products with chip and pin cards including our private label credit and debit products. While sales were in line with expectations, our second quarter segment EBITDA margin rate of 10.9% was much stronger than expected. Our second quarter gross margin rate of 30.9% was half a point higher than a year ago right on our guidance.

Consistent with the first quarter this year rate benefited from lower marked downs as we annualized last year's post breach promotional activity and we saw a very favorable mix of sales in our signature categories. I mentioned this last quarter but I want to emphasize it once again, it is really important that we've been able to grow our traffic in sales even as we cycle over very intense promotions last year. Beyond the benefit of growing sales there was a compelling gross margin benefit from growing our signature categories three times as fast as the Company which more than offsets the pressure on our cost to goods from investments in quality, innovation and presentation.

On the SG&A expense line we had a standout quarter with a rate improvement of about 60 basis points compared with last year. This performance was driven by outstanding discipline across the enterprise combined with the benefit of our cost control initiatives. These benefits more than offset a 40 basis point headwind from incentive compensation which was unusually low in the second quarter 2014 in light of the financial performance we were experiencing at the time.

As I noted earlier, marketing expense timing was a meaningful benefit this quarter. As last year’s second quarter spending was unusually high to support our promotions and this year we've retimed some spending into the third quarter in support of our back-to-school licenses and Target style. This timing shift benefited our second quarter SG&A rate by about 30 basis points or about half our overall rate favorability and we expect this shift will reverse in the third quarter.

Before I leave our segment discussion, I want to comment on our quarter end inventory position which was about 4% above last year. This reflects a meaningful improvement from the 9% year-over-year increase we reported at the end of first quarter driven by issues at the west coast ports. While we've made a lot of progress in the second quarter the year-over-year increase is moderated even further so far in August. As our quarter end inventory supported back-to-school sales that moved into early August as a result of retiming of some tax-free holidays.

Bottom line we feel very good about overall inventory levels in relation to our sales plans; however, we have a big opportunity to improve in stock levels which I'll cover in a few minutes. One note, you'll see on the balance sheet that we've moved pharmacy inventory into the other current assets line in all periods reflecting the current status was held for sale pending the close of our transaction with CVS.

Moving to consolidated metrics, second quarter interest expense was $148 million flat to second quarter 2014 excluding last year's $285 million charge for early debt retirement, we paid second quarter dividends of $331 million, up 22% from last year and we invested in other $675 million to retire shares that adds up to a total of $1 billion return to our shareholders this quarter representing more than 130% of net income. Looking ahead with healthy business results and an ample cash position, we expect to have the capacity to continue to returning a meaningful amount of cash through both dividends and share repurchases within the limits of our current investment grade credit ratings. As anticipated given our continued desire to repurchase shares, in the second quarter our Board of Directors approved a $5 billion increase in our share repurchase authorization. As of quarter end under this program we have retired more than 65 million shares at an average price of just over $67 a share for a total investment of about $4.4 billion. With the expansion of the program we expect that sufficient repurchase authority well into next year including any potential repurchase resulting from the proceeds of the CVS transaction.

Regarding that transaction things are continuing as expected as we work with CVS and regulators to advance the process of gaining approval for the sale. Given the uncertainty of potential timing for regulatory approval and the closing of the transaction the guidance we provide to-date does not reflect any expected impacts of the transaction which includes application of proceeds and removal of prescription sales, costs and assets from our financial statements. As I described last quarter this year we began reporting return on invested capital from continuing operations or ROIC because we believe it is an important metric in assessing the quality of our capital allocation decisions overtime. And as we covered in the financial community meeting in March our goal is to reach the mid teens or higher on this metric over the next five years.

Not surprisingly given our strong operating results we reported a meaningful improvement in trailing 12 month ROIC this quarter as it grew 2 full percentage points to 13.3% compared with 11.3% a year ago. Now let's move to our outlook for the third quarter and the remainder of the year. In the third quarter we are cycling over stronger sales results from last year, both in stores and digital channels. And we expect the consumer competitive environment to remain choppy. As a result we are planning for a third quarter comparable sales increase of 1 to 2% including expected digital channel sales growth of about 30%. We expect our third quarter gross margin rate to increase 20 to 30 basis points compared with last year reflecting a continued mix from the signature category sales and a benefit from cycling last year's promotional activity, partially offset by investments in quality and price on our owned and exclusive brand products.

On the SG&A expense line we expect our third quarter rate will be about flat to last year. As the benefit from cost control is expected to be offset by a 30 basis point headwind from the shift in marketing spend from Q2. Combining our gross margin and expense rate reductions we're looking for improvement in our third quarter EBITDA and EBIT margin rates of 20 to 30 basis points compared with last year. Third quarter interest expenses is expected to be approximately flat to last year and tax expense is expected to increase by about $60 million reflecting improved profitability and non-recurring favorable tax items in third quarter last year. Altogether these expectations would lead to third quarter adjusted EPS of $0.79 to $0.89, compared with $0.79 a year ago. Note that this includes the impact of the shift in marketing timings which translates to a $0.05 per share headwind in the third quarter.

As we look ahead to the full year we are certainly pleased with our results so far which have been notable stronger than expected and we have been pleased with comp performance so far this month, including back to school sales which reflected retiming of some tax free holidays into early August. At the same time we remain mindful of the intensely competitive nature of our holiday season and have noted the inventory levels we're seeing with some competitors. Taking both of those factors into account we're updating our guidance for the full year adjusted EPS to $4.60 to $4.75 a $0.10 increase compared with the prior range. Before I conclude my remarks, I want to pause and comment on my priorities as I enter the new role as Chief Operations Officer next month. As Brian mentioned, the number one priority for my new team is to improve the way our supply chain functions from end to end, achieving this goal, lead to many benefits perhaps the most visible of which is an improvement in our in stocks. Given the breadth and complexity of our business it will always be a challenge to the in stock on every item in every store in every moment of every day.

But our guests need us to be consistent in delivering everyday essentials and unfortunately in the last couple of quarters our in stocks have been deteriorating. This challenge is understandable because we've been asking our supply chain to move well beyond its original design and become more flexible in the way we serve our guests. However while we understand the reasons the simple fact is that our current performance is unacceptable. So beginning this quarter my team will be looking for both quick and more comprehensive solutions to make improvements in the supply chain both this year and overtime, and beyond this initial effort we will work to ensure that our preparations and strategy move in lock steps enabling us to serve our guests in a rapidly evolving retail landscape. I look forward to updating you on our progress over the coming months and years. With that we'll conclude today's prepared remarks. Now Brian, Cathy and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question will come from the line of Oliver Chen with Cowen & Company.

Oliver Chen

Brian as you've been so successful in this journey as traffics back to the stores, just a bigger picture question, how do you think your priorities have kind of dynamically changed throughout the year and where would you say Target is in terms of customers coming back to the store versus increasing customer spend? And John I had a question relating to the comp guidance as well.

Brian Cornell

Oliver, overall I think we're making really good progress against our key strategic initiatives that we've been talking about for a year now. The change we announced this week is to make sure that we elevate our focus on execution and really ensuring operational excellence throughout the organization. And that is why I am so excited about John stepping into this new role to make sure that we complement the focus we have placed upon creating strategic clarity with a recommitment to operational execution. And I think the combination of those two elements is critical to continuing to drive traffic, make sure we delight the guest, seeing improvement in our net promoter scores and make sure that both in-store and online we are continuing to see an acceleration in traffic and visits to our site. So I think we're making very good progress right now. I think that is showing up in the results we delivered this quarter but we're not satisfied and we know we've got more work to do to ensure that we do meet the needs of the guest every time they shop and critically important in meeting those needs is to make sure that we provide a great in-store experience and dramatically improve our in stock conditions particularly around core essentials. So I think very good progress I think this is an excellent quarter where the entire team performed well but we know we've got more work to do and we got to make sure both in-store and online we deliver a consistently great experience for the guest.

Oliver Chen

And John I just had a question on the comp guidance, would you expect this to be a pretty broken up between traffic or ticket or do you think it's going to be more traffic led and as you do embark on the opportunity in supply chain, what are you highlighting as your lower hanging fruit in terms of timing and I was just curious about the categories that you seen the most opportunity for when you think about further advancing your supply chain?

John Mulligan

Sure. On the comp guidance we don't breakout traffic and ticket but I'll tell you just from a business perspective we're very focused on driving traffic overtime ultimately we have to bring people in our stores, we need to bring people at our site on to mobile devices and so that's a key driver for us for our sales as we continue to move forward.

Related to the supply chain, there is the team has done a great job responding to the needs of the organization overtime to develop more flexible ways to meet the needs of our guests and really fulfill on demand shopping I think we are just at a point now where we need to step back and build broader capabilities across the entirety of the supply chain as we continue to expand the way we want to serve our guests. So there is not one particular area of the company or one particular part of the business that we're completely focused on absent I would tell you and as I said and you heard from Brian in-stocks are a key priority and in specifically being sure day-to-day in every store we're in-stock on essentials. That's a key priority for our guest. We hear it from them. It's a key focus for the team and we have teams working on improving those in-stocks across our essential categories to-date and that will be a focus as we go forward.

Brian Cornell

Oliver I can build on that because as we talk about improving our focus on operational and executional initiatives, now I go back to some conversations we've had in the past. I actually believe we have the best team in retail. Our store operations Tina and her team do a sensational job. But one of the things that John will be focused on is ensuring we simply the work and we make it much easier for them to execute each day and take care of the guest. So we want to complement a very strong store leadership team that does a sensational job each and every day executing store by store by simplifying some of the work, by making sure that we push work upstream and allow them to focus even more on the store experience and the service we provide our guest.

Operator

Your next question will come from the line of Matt Nemer with Wells Fargo.

Matt Nemer

First I was wondering to what extent you are using price to drive the 3x growth in signature categories, can you comment on what the growth and gross profit dollars for those categories has been like?

Brian Cornell

Yes Matt, I'd tell you that the improvements we're seeing is really driven by mix and as we've talked about we've invested heavily in ensuring we are on trend. We are bringing great quality to the guests. We're extenuating our position in key categories. We were really pleased during the quarter to see how well we connected with sub-cats like swim. We've seen really strong performance in ready to ware and most recently a very positive response to the changes we made in denim, so the improvements we're seeing in those categories are really driven by great quality following the trend curves, bringing great style and fashion to our guest and it has not been driven by a reliance on pricing.

Matt Nemer

And then secondly, your comments regarding the supply chain being stretched I realized that the analysis is just starting or in the early days, but do you believe that there is a significant refinement required in the supply chain in terms of either DCs or FCs or something else?

Brian Cornell

No, Matt we are in a place where we have, we believe just great-great assets across the supply chain, great distribution centers, great upstream distribution centers, food distribution centers fulfillment centers and of course the stores. I think we've said over the past couple of years our focus of our investment has been supply chain and technology in support of becoming an on demand company that will continue to be the case. We're going to continue invest in technology and supply chain, but the physical asset side we feel really-really good about.

Matt Nemer

Okay that's great news and then if I could just sneak one more in, the early back-to-school strength and the marketing shift is that fully embedded into the Q3 comp guide?

Brian Cornell

It is and it would be and we're seeing a very positive start to back-to-school and back-to-college.

Operator

Your next question will come from the line of David Schick with Stifel.

David Schick

Wondering if you could give us a few more examples concrete examples of how you are driving that localization success in Chicago categories or items and separately if you could talk a little bit about digital approach outside of your own platform so we've seen it and we've heard from you what you're doing and that's exacting and driving growth, but we've seen a little bit of your outreach to bloggers and how you're working with them if you could talk about the full view of how you're thinking about digital outside of the Target's headquarter that will be helpful as well? Thank you.

Brian Cornell

Sure, David let me start with localization and as I said during the couple of calls, this is still a very nascent effort for us. We're in one market a handful of stores in Chicago, but we'd really been focusing on a handful of areas where we recognize we need to change our assortment, change our presentation, be more relevant and really recognize the needs and the demographics of these local markets. So, there is a handful of categories I might list up one craft beer and really making sure that in a category like craft beer we have locally relevant items and we recognized that even in a market like Chicago those need to be tailored neighborhood by neighborhood. So we have looked at specialty foods. We have looked at categories like craft beer. We have looked at categories like patio and grills, and recognizing in that end the suburbs of Chicago, we can offer and should have in-store large patio sets five burner grills, but for our stores located in more of the urban neighborhoods of Chicago we need Easter tables and we need two burner grills because those guests are living in condos and apartments, they've got small patios and we need to make sure we tailor our assortment and our presentation to recognize their needs and to make sure we're more locally relevant.

So we're certainly seeing a lot of time looking at food and as we think about the food reinvention a lot of this is going to be driven by making sure we have locally relevant brands, those hometown favorites and also in broader categories like patio and furniture making sure that we're matching up our assortment in-store with the needs of that local guests. So a lot of additional work for us to do, but we're really pleased with the progress and I talked about 1 to 2 point lift versus the test and control stores adds a very important measure for us to continue to evaluate. And working with John and our merged team we'll be looking o rapidly rollout the learning from Chicago into other relevant markets.

From a digital standpoint David, obviously we continue to see really positive response to some of our efforts like cartwheel and cartwheel has now been downloaded over 18 million times. And every time I am in-stores I run into guests that have their smartphone in their hand and they're looking for their offers from cartwheel, but we also recognized that Target is a brand that is talked about in social media everyday thousands of times every day. So if you were to visit our headquarter here in Minneapolis just down the hall from my office we have what we call guest central, it is our guest command center where we're monitoring what people are talking about, what they're blogging about, how Target is being referenced in the news and we're making sure we're very engaged with those bloggers and making sure that we're in the discussion. So it's a very important part of how we think about the brand and making sure that we incorporate social into our overall brand development initiatives.

Operator

Your next question will come from the line of Scott Mushkin with Wolfe Research.

Scott Mushkin

Looking forward to working with you guys in your new capacity as we move forward. The stock obviously was up a lot earlier today it has kind of rolled over and I think it's the sales line that people may be a little concerned about. The 1% to 2% guidance in the third quarter but also that we'll look out over time SG&A saves obviously tapered down and so as you look out to '16 and '17 getting the sales line moving is going to be more important here. I know Brian you pointed to some things like the signature categories but I was wondering what else gives you confidence, we actually have a lot of confidence because we got a focused group that stay in touch that people are really responding to what you guys are doing. But in your words what gives you the confidence we can see sales trend higher overtime?

Brian Cornell

I think it starts Scott with the reaction we've seen from the guests, at some of the changes we made in signature categories. And when I think about in today's marketplace apparel growing at 4% to 5%, the changes we've seen and the reaction we've seen from the guest to our home offering. The fact that within kids, toys growing this quarter at 12% and while again still in the early stages the reaction to some of the changes we're making in our food assortment. The reaction that guests is taking to made to matter and our wellness initiatives gives me a tremendous amount of confidence that as we continue to bring great design, fashion, quality and excitement to our signature categories and combine that with the opportunity to reinvent food to bring the right assortment that meets the needs of our guests, that to me is the magic to unlock sustainable sales growth to Target and make sure we're driving traffic to our stores, more visits to our site and it gets back fundamentally Scott, I believe we win and will continue to grow by combining a great store experience the convenience of allowing our guests to order online and pick up in our stores whenever they want and also be able to ship directly to their homes and using our stores as flexible fulfillment centers to make sure that response is a quick one. So I'm very optimistic about the future. I think you're starting to see that embedded in the results and the results in signature categories is very encouraging for us. We're getting great feedback from the guests. As I think about the third quarter we expect plan to be a really exciting initiative and the buzz that we're seeing already is really positive. So we've got work to do on food but when we reinvent food and get the assortment right there and improve the presentation I think that gives us all great confidence that we're going to continue to drive traffic to our stores and that's going to convert to really solid and sustainable comps.

Scott Mushkin

And maybe just, I hate to be the short term focus but the question I get all the time as we look at the fourth quarter, where you're going to be going over a pretty significant comp from last year. How should we think about that, I mean a lot of people look at stacks, you guys have good stacks, or how do you think we should start framing the fourth quarter maybe a thought there?

John Mulligan

I think we can all drive ourselves crazy doing two year, three year, five year stacks whatever you want, but in this case I do think the two year of stack is important. We've continued to see our two year stacks improve if you do last year's Q4 against the previous Q4 you know the average there is about or the number there is about a 1-3. So we expect to cycle past that this Q4 and we've seen putting our, putting the implied guidance you guys can do a rough number around that, putting that against last year's comp will be an acceleration of our two year stack and so we feel good about that and I think to the points Brian just made, part of it is we need to continue to grow, we feel confident we're going to continue to grow and comp against whatever it is we delivered in the prior year and we feel good about doing that, we feel great about our fourth quarter plans, we're cognizant that that's an intensely competitive time of year, we'll be very promotional, we're not going to get beat on promotions and we'll be in the game and we feel really good about what we'll offer the guests in Q4.

Brian Cornell

And Scott honestly, we'll update our guidance for the fourth quarter at a later date, but trust me we're spending a tremendous amount of time evaluating our plans week by week in the fourth quarter. I spent time just yesterday with our team going through our fourth quarter plans, our merchandizing plans, our marketing plans, how we're going to approach the key holiday periods. And to me it's all about making sure we've got the right content, we have got to have great product. We certainly know we need to make sure we're winning from a promotional standpoint but then we got to make sure we surround the guest with a great experience and really iconic marketing. And I think we're going to combine a great in store with an online experience and be very competitive and well prepared for the fourth quarter.

Operator

Your next question will come from the line of Matt McClintock with Barclays.

Matt McClintock

I was just wondering if we could focus just, I know we focused on, you have talked a lot about the signature categories, you have talked a lot about supply chain but could we focus on, and you've also talked about food can you focus a little bit on electronics continued weakness there clearly the industry itself is a little bit challenged but a lot of consumer interest in new products in that category especially as we go into the holiday season this upcoming holiday season you're talking about the fourth quarter maybe dive a little bit into what you're doing there in that specific category to maybe try to gain market share and what is the challenge category? Thank you.

Brian Cornell

Yes so Matt I'm not going to go through the details of our plans. We'll kind of maintain that powder for the fourth quarter but we're certainly looking at newness in electronics. We're looking at categories where we think we're uniquely positioned to win, so working very closely with our suppliers to ensure that we have the right newness that we're ready with the right presentation I think there is a lot of exciting things in the pipeline. We certainly think as we continue to focus on wellness that variable technology is a space where we can and will win. But we also recognized right now that many of those categories are waiting for new innovation and we're working closely with our key suppliers to make sure that we're going to be bringing that innovation to the guest and featuring it throughout the fourth quarter.

Operator

Your next question will come from the line of Peter Benedict with Robert Baird.

Peter Benedict

Two quick ones, first, on the digital side obviously impressive growth 30% I think the longer term plan closer to 40%, so curious, two things, one, what kind of gets that channel growing faster the next couple of years and related to that a number of large retailers out there are opening up dedicated e-commerce fulfillment centers. I don't believe you guys have those, is that something that make sense for Target as you think out over the next few years?

John Mulligan

I'll take the second one first and then let Brian comment on the growth. I think on our supply chain for the digital channel we actually have six dedicated fulfillment centers and we think the combination of fulfillment centers with our exciting regional distribution centers and along with the stores gives us all of the capability we need and then you'll see us continue to grow the store channel, our regional distribution channel, all three of those channels as ways to fulfill depending on the product and how quickly the guest wants it.

Brian Cornell

Yes and Peter I'll step back and just talk about the fundamentals. We got to continue to make sure that we build awareness. We got to make sure that as our guest engages with us digitally we make it really easy, and we make it easy to find product and easy checkout experience. We believe that available to promise which will roll-out this fall will give our guest the confidence that they know where the product is and when it will arrive for them either in a store for them to pick up or being available directly to their home. So we're focused on making sure that we provide not only a great in-store but a great digital experience and we're going to make sure that we continue to make our site easy to work with and more and more that's the mobile interchange that we've got to make sure is easy for our guest to find product and checkout. We want to give them the confidence that when they order they know it's available to promise and we're going to have it there for them when they need it. And to the point John made, we don't need to be building upstream DCs we're going to continue to convert more of our stores and as we go in the fourth quarter close to 450 that will act as flexible fulfillment centers to make sure that we can quickly and efficiently get product to the guest. So those fundamentals are critically important as we think about driving industry leading growth.

Peter Benedict

Sorry, my bad on the DC question, but thank you for that. And quickly over to SG&A I think you guys have outlined 1.5 billion over the next couple of years in savings $500 million maybe coming this year where are you trending towards those savings, how are those savings kind of corporate versus in-store I'm just curious kind of how like store level payroll dollars compared today versus let's say a year ago?

John Mulligan

Yes so, we're right on track with the savings we've got programs identified to deliver the entirety to 2 billion to 1.5 billion in SG&A plus the cost of good saving so we feel really good about that we're on track for our commitment for this year as well. One of the things we talked about when we had first announced this and we've talked about it in a great detail and the company is -- the stores are already productive and if we're going to take hours out of the store it will be because we eliminate work to the point Brian made earlier move work upstream into the distribution centers. And so we're not focused on taking hours out of the store. We're focused on taking work out and we are in the process of working through that, that's a little bit longer lead process than some of the other things we've done. But we're focused on essentially freeing up those hours in the store and then we'll decide do we need them for improved guest service or how we'll utilize them. But in fact we have -- there is a couple of areas where we have invested hours back into the store as we have put in the whole merchandising sets and as we have put in mannequins we've realized the need for dedicated store team members who can merchandise those displays and make them look great all the time. So that's an area where we've invested back into the store.

Operator

Your final question will come from the line of Greg Melich with Evercore ISI.

Gregory Melich

John I can't let you get promoted without hitting with a finance question so, how much the credit helped you said credit I think was a benefit in the quarter profit share how much did that help in the quarter and linked to that how should we think about SG&A dollar growth, I mean, it sounds like third quarter will be up 1 to 2 in the comp but it was flat in the second quarter, what's the normal run rate there now?

John Mulligan

Good question, on the credit side the benefit it was up but not meaningful and it was less than I would say less than half a penny of improvement versus last year so very-very small we are pleased it was up given that as we said payment rates continue to go up and so we're seeing the portfolio continue to shrink, so clearly a portion of where the gas dollars are going at least from our perspective. SG&A through time, we'd expect to lever SG&A go up over the long-term here go up modestly slower than sales growth. I think we said we're going to continue to take expense out, but we also said that the majority of that expense will likely get reinvested so I wouldn't count on big reductions in our SG&A overtime there will be places where we have to add back expense to meet the needs of our guests I just talked about in the stores. So modestly slower than sales growth over the long-term would be what I'd say.