Good morning, everyone and thank you for joining us on our second quarter 2017 earnings conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; John Mulligan, Chief Operating Officer; Mark Tritton, Chief Merchandising Officer; and Cathy Smith, Chief Financial Officer.

In a few moments, Brian, John, Mark and Cathy will provide their perspective on Target's second quarter performance and our plans and priorities going forward. Following their remarks, we will open the phone lines for a question-and-answer session.

As a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings. Also in these remarks, we refer to adjusted earnings per share, which is a non-GAAP financial measure and return on invested capital, which is a ratio based on GAAP information with the exception of adjustments made to capitalized operating leases. Reconciliations to our GAAP EPS from continuing operations and to our GAAP total rent expense are included in this morning's press release, which is posted on our Investor Relations website.

With that, I will turn it over to Brian for his thoughts on our second quarter performance and our priorities going forward. Brian?

Brian Cornell

Thanks, John. Good morning, everyone. We are very pleased with our second quarter performance, which gives us increased confidence that we are focused on the right long-term strategy. Our team is energized and remains on track to deliver the ambitious agenda we laid out for the year, including the physical transformation more than 100 stores in 2017. On the way to transforming, more than 600 stores over a 3-year period, nearly doubling the number of small format stores are shared in support of our goal to open more than 100 new stores in dense urban, suburban and college campus neighborhoods over a 3-year period.

Development and rollout of digital capabilities that will continue to drive Target's digial sales growth in excess of the industry, completely transforming our supply chain from end-to-end creating a smart network of stores and distribution facilities that will allow fast reliable fulfillment regardless of how our guests use the shop, rejuvenating our own brand portfolio by launching 12 brands over a 2-year period, replacing brands that represent more than $10 billion of our current sales volume, investing in systems, training and additional labor hours in our source enabling our team to provide an even better experience for our guests and enhancing our value perception among consumers by reducing promotions and highlighting the right everyday pricing in key categories. Later in the call, John, Mark and Cathy will provide more details on our efforts to advance each of these priorities.

On our last conference call, I mentioned that beyond our focus on advancing our long-term priorities, we need to have equal focus on strong execution in every channel, everyday. That's why we are really proud of the execution by our team in the second quarter as they delivered better-than-expected performance in a continuing challenging environment. In particular, second quarter traffic, which was up more than 2% was much stronger than our expectations and better than recent trends and the strength was broad-based across the country, across categories and across channels. And while the consumer and competitive environment remains choppy better-than-expected performance occurred throughout the quarter and wasn't limited to a short period within the quarter, with better second quarter traffic, we saw improved performance across each of our 5 broad merchandising categories: apparel, home, food and beverage, essentials and hardlines. 4 of those 5 saw comp increases in the second quarter, while comp sales in food and beverage were flat. However, given continued competitive and deflationary pressure in food, we are pleased that we are seeing early signs of progress. Specifically, we saw really strong positive comps in adult beverages and produce in the second quarter, both categories in which we have identified opportunities and focused on improvement. The positive response from our guests demonstrates that we are making progress and we are taking additional steps to build on that momentum over time.

I also want to call out our progress on pricing and promotions. As we mentioned in the last call, we undertook this effort with a long-term view knowing that we might create some headwinds in the near term. Specifically, as we move towards a stronger everyday price proposition in our business and pullback on excess promotions, we can expect an adjustment period before value perception proves and consumers respond. While we continue to face the risk in future quarters as we expand the scope of this work, it's notable that in the second quarter we saw a meaningful increase in the percent of our business done at regular price and a meaningful decline in the percent on promotion. This demonstrates the progress we have already made and gives us confidence we are on the right track.

I also want to call out the team's progress on Target's digital capabilities which continue to show up in our results. Target's digital sales grew much faster than industry in the second quarter, up 32% on top of 16% growth last year. If you do the compounding of these two growth rates, you will see that this represents more than a 50% growth rate compared with 2 years ago. And importantly as a result of our comprehensive effort by our team to reduce friction and increase the reliability of our digital operations, we have seen meaningful declines in guest contact center activity related to digital. This is a tangible reflection of our work to create a stable digital platform and successful collaboration between our digital operations and merchandising teams to create a more cohesive experience for our guests.

To build on this success the team is rapidly testing and rolling out additional fulfillment options for our guests. This includes Target Restock, our next day delivery option for everyday essentials that we recently rolled out the Twin City Red Card holders. It includes same day delivery which we began testing in our Tribeca store in the second quarter. It includes an early test of curbside fulfillment which we recently began testing with Twin City team members and which will expand to again facing tests in the third quarter. And of course our efforts include the expansion of ship and store locations, in-store pickup capabilities and our work with third-party providers to speed up ship times from our stores and distribution facilities. In each of these efforts the team is moving quickly, more quickly than ever before to rollout, test and iterate and expand where we see positive results. We are really excited to see the engagement of our team and the collaboration occurring across our operations which allows these tests to move quickly and we intend to continue moving quickly in the months ahead.

Another area where we have increased our speed is the development and rollout of new exclusive brands with last year's rollout of Pillowfort and Cat & Jack in kids we demonstrated the power of reinvention in categories that were already performing well. Specifically both of these new brands grow double digit comps following their launch last year. Regarding the Cat & Jack brand, we have long said that it was on pace to exceed $1 billion in sales in its first year. The performance has actually exceeded those expectations. Cat & Jack just crossed the $2 billion mark only slightly more than a year after its launch. Based on the success of those brands, our team took on the ambitious goal of launching 12 additional new brands before the end of next year and those plans are coming to life.

At the end of May we launched Cloud Island, an infant brand which we developed in partnership with our guests. And like last year's new brands Cloud Island has generated double digit comp increases in the period since the launch. In July we launched a new maternity brand Isabel Maternity and announced plans to launch four more brands in the third quarter crossing women's apparel, men's apparel and home. I also want to comment on our recently announced decision to partner with Casper in advance of the back to college season. I spent some time with the leadership team at Casper and I have been really impressed with how they think long-term and focus on outstanding execution on behalf of their customers. Their brand and products are a great fit with the Target brands and we are proud to be featuring their products online and in our stores, including a couple of exclusive items they have developed only for Target. This relationship is the most recent example of our ability to differentiate our assortment while helping outstanding brands to extend their reach.

During this period of rapid transformation in retail in which many others are shrinking, we will continue to look for ways to partner and deliver incremental growth for high quality brands while delivering differentiation and value for our guests. As we look ahead, we are committed to continued progress against our long-term goals. And we expect the environment will continue to be challenging. The pace of change in the consumer and competitive environment doesn't show any signs of slowing down. And we are well positioned to emerge as one of the winners in retail. It starts with the underlying health of our business, a business that generated profits of nearly $700 million in the second quarter. Our business is backed by amazing assets including our team, our network of stores and distribution centers, our unique merchandise assortment and a deeper relationship with our guest. Beyond those assets we have a very strong balance sheet and operations that generate a lot of cash providing us the flexibly to undertake the ambitious 3-year transformation we first laid out at our analyst meeting in February. And we continue to look for ways to move faster.

In February, we announced our plans to complete 250 store transformations in 2018 on top of the 100 plus we are on track to complete this year. However, based on our success so far and the hard work of our real estate and construction teams to grow our capabilities quickly, we now believe we can accomplish more than 300 store remodels next year. While the scope of our transformation is large we remain focused on what has made Target an outstanding retailer over the long-term, all the way back to our first store in 1962. The key for us is embracing the power of ant which makes us unique among our competitive set. When we are at our best our model delivers the best of both mass and specialty retail. We deliver inspiration and convenience and we invite our guest to expect more and pay less. Because we delivered on all of those dimensions over time, we have developed a unique emotional relationship with our guests and we believe that relationship is positioned to thrive in the new era of retail.

If we continue to offer our guests inspiration and aspiration, differentiate merchandise and experiences and deliver convenience, reliability and great everyday prices we will continue to stand out and succeed in a crowded retail environment. One way to see how the best the Target comes together is a visit one of our exciting new small format stores we have been opening across the country. I visited our new store that recently opened on the USC campus and despite my loyalty as a proud UCLA graduate I couldn't help being excited by what I saw. The store is already quite busy even though most of the students have yet to return from summer break duty, baby, food and beverage are all selling well. And the store team is quickly evolving their assortment based on feedback from a diverse set of guests, it's truly inspiring to see the team interact with our new guests and an exciting new shopping environment and I am proud of what they do every day.

So now I would like to turn the call over to the team who will provide additional detail on our strategic plans and recent performance. First John will provide detail on our work and supply chain and our stores to enhance our fulfillment capabilities and provide a more reliable and inspirational experience for our guests. Then Mark will cover category performance and provide more detail on our recent and upcoming brand launches. Finally, Cathy will provide more detail on our second quarter financial results and expectations for the rest of the year.

So with that I will turn the call over to John for his comments. John?

John Mulligan

Thanks Brian. Across all the operations team, we are focused on modernizing Target's network to create a complete seamless efficient and reliable menu of fulfillment options for our guests. And while we are still in the early stages of a multi-year journey, the team continues to move with unprecedented speed developing skills and processes that allow us to develop, test and iterate much more quickly than we have in the past. Some of our fulfillment capabilities are already well developed and in those cases the team is focused on finding ways to increase our speed, reliability and reach. At the other end of the spectrum, we are in the early stages of testing completely new fulfillment options for our guests. In those situations the work is fully focused on learning from our guests and vendor partners, understanding what is most important to our guests and beginning to evaluate reliable, repeatable processes that will allow Target to fulfill guests rapidly evolving needs and expectations.

Among our more developed fulfillment capabilities, we have offered in-store pickup of digital orders across all of our locations for years, but we continue to find opportunities to improve execution and we are seeing and continued momentum. Specifically through the first half of the year store pickup volume has grown more than 30% above last year and in July we saw more than 40% growth. As more and more of our guests respond to the convenience of order pickup, we are investing in system enhancements and store labor hours to continue to elevate the guest experience. These investments will be especially important in the fourth quarter holiday season when guests are particularly time pressured and rely on this fulfillment option even more frequently.

Another way we can enhance the pickup experience is to offer a drive up option, so guests don't need to leave their cars. And in second quarter we launched the new test of the service, unlike the past when we partnered with third-party to offer this service this new test is being implemented with our own team members and internally developed technology. The offer applies to approximately 180,000 shelf stable items currently eligible for in-store pickup. And in the early stages, we are offering it only to team members in a handful of Twin City stores. However, based on our early results from the test, we expect to move to a guest facing pilot and select Twin Cities locations later in the fall.

While the capability for our stores to ship digital orders directly to guest homes was also launched 2 years ago, we are seeing even more rapid growth in this fulfillment mode. For the first half of the year ship from store sales are only about twice as high as last year, accounted for more than 40% of digital units shipped. Since the rollout of this capability we have added new ship from store locations every year. In this fall we plan to roll it out to another 350 stores in advance of the holiday season. This will bring the total number of ship from store locations to more than 1,400 stores. In addition, we are creating additional capacity by ramping up the order volume running through our mature ship from store locations. Because so many of our stores can now ship directly to guests, we have been able to increase delivery speed while still controlling costs and that in turn has allowed us to offer new fulfillment options like Target Restock.

This service allows guest to order a shopping cart size box filled with items chosen from an assortment of more than 15,000 essential items like coffee and paper towels and have it shipped to their house for a fixed $4.99 delivery fee. Because these orders are fulfilled from a nearby store location, we can promise that any restock order placed before 2 PM will arrive at a guest home on the following weekday. You will recall that we rapidly developed this capability the team member test in the first quarter and we moved to the next stage of the test in the second quarter rolling out to Twin Cities Red Card holders in late June. Operationally, this guest facing test has gone well and as a result we just rolled out restock to the Dallas and Denver markets and we plan to expand into another seven markets before the holidays. With restock available in these 10 markets we will already be reaching one quarter of the U.S. market less than six months from the day we launched the test.

Beyond geographic expansion, we began offering restock to non-Red Card holders in all three test markets. We will be extending the delivery window by adding Saturday delivery and will move the cut off for next day delivery later beyond the current 2 PM cutoff. And given the strong store execution we have seen so far, we will begin ramping up communication and marketing efforts in restock markets which will increase awareness in order volume providing visibility into the capacity of our store team to reliably process higher order volumes. Beyond our internal fulfillment capabilities, our team is also working with transportation partners to improve the speed and cost efficiency of last mile delivery.

To supplement these efforts, this week we announced our decision to acquire Grand Junction, a San Francisco based transportation technology company. Grand Junction has developed proprietary technology tools and has relationships with more than 700 carriers, allowing retailers to choose the most efficient option for last mile delivery on an individual order. While this acquisition is not expected to have a material direct impact on our financial results, we are excited to bring Grand Junction into the Target team and believe their model will help accelerate our progress in delivering speed, efficiency and a high level of service to Target's last mile fulfillment. We worked with the Grand Junction team on the test of same day delivery in our Tribeca store which we launched in the second quarter. In this test, guests who check out can choose to have their purchased items delivered to their home on the same day in a delivery window of their choice.

We have been pleased with the results of the test and have gained some useful insights from the guest response to the offer. For example, the value of the average basket for these same day delivery orders is more than 6x the store average at the Tribeca store and contains nearly 4x the units compared with the stores typical basket. Also notable home is the most common category in same day delivery transactions, ahead of essentials and food and beverage. And importantly net promoter scores for the same day delivery service have been higher than for the Tribeca store overall demonstrating the quality of execution so far. Based on these encouraging initial results, we plan to expand the same day delivery test to several other New York City locations in the fall.

Of course the most common mode of shopping is still overwhelmingly in our stores. So while we are investing in new ways to leverage our stores for digital fulfillment, we are also investing to bring our great store shopping experience to guests across the country. This includes our remodel program in which we plan to transform the look and feel of more than 600 stores over a 3-year period. In support of this plan, we are on track to deliver more than 100 remodels in 2017. In the second quarter we completed 42 remodels, bringing us to a total of 63 so far this year. And while we are obviously seeing a range of outcomes on an individual store level, we are continuing to see average sales lists in line with our plan to deliver a 2% to 4% sales lift in remodel stores. And as Brian highlighted, the team is doing a great job of scaling up our capacity, which will enable a faster pace of remodels in 2018 than we previously expected. Beyond remodels, our team is delivering our plan to rollout more than 100 small format stores to dense urban, suburban and college campus environments over a 3-year period. For 2017, we are still on track to deliver our plan to add nearly 30 new small format stores. In July, we opened 9 new small stores across the country on top of the 4 we opened in the first quarter. While we have only been open a few weeks, our July openers have been particularly strong out of the gate.

And as Brian highlighted, the guest response had been phenomenal. For the 7 small format stores, they have been open for more than a year, we are continuing to see sales productivity more than double the company average and these stores have been delivering high single-digit comp increases so far in 2017. So, clearly, our team has been busy transforming our assets and developing new and more efficient ways to fulfill guest demand. But as Brian mentioned, we also need to focus on execution everyday. Even though strong execution may not always grab the headlines, it has a real impact on our performance. An outstanding example is our work to improve the fundamentals of our digital business, which has dramatically reduced the number of guest center contacts related to digital transactions.

Specifically in 2017, guest contacts per digital order are running 30% lower than last year. This dramatic reduction is the result of concerted effort by our team who looked end-to-end at the digital guest experience, all the way from our site and our apps to ordering, purchasing and fulfillment. Based on this foundational work, the team has worked methodically to reduce friction and pain points and you are seeing the benefit both in our contact statistics and in our digital traffic and sales.

Another example is our partnership with CVS. As we outlined last year, the conversion of pharmacies created some inevitable friction for our guests driving an initial decline in script count in our stores. Since the conversions began, we have been working closely with the CVS team to minimize the guest impact and build awareness of the benefits CVS can provide. As a result of our joint efforts, guest experience scores in our pharmacies have been climbing since the CVS conversion and are now running well ahead of our pre-conversion levels and we have been seeing the impact in our business.

In the second quarter, comparable pharmacy script counts turned positive for the first time in more than a year. While this is encouraging, we know we have more opportunities to build on this momentum and we are working with CVS on marketing and guest engagement plans for the fall season. Execution in our stores has been a big focus this year and we are investing in hours training and technology to our large store team members to elevate the shop experience. Depending on the stores volume and buying patterns, we are adding hours to enhance the order pickup experience. In our visual merchandising teams in apparel and home, in beauty and in food and beverage and given all the brand launches that Mark's team is planning for the fall, we have invested in training and materials to help our store team is best present and sell these new lines to our guests. Across all of our stores, we are asking the team to increase their engagement with guests and ensured they are finding all the items on their list. To support this effort, we are rolling out a new tool that will help our store teams locate items, colors and sizes not available in their store and allow them to sell those items directly to guests right on the sales floor. We are in the very early stages of rolling out this new capability and guest awareness is still low, but we are already getting some initial insights. Not surprisingly over half the activity on these devices has been related to apparel where the ability to find additional sizes and colors creates particular value for our guests.

So now before I close I want to give a nod to the team. I am incredibly proud of what they have already accomplished and I am energized by their passion to transform our operations in our business on behalf of our guests. And while I know I keep saying that we are just getting started it's also amazing to look back and realize how much we have already accomplished.

With that, I will turn the call over to Mark who will provide more detail on our performance and plans and merchandising. Mark?

Mark Tritton

Thanks, John. As you have been hearing from many of the industry peers, this continues to be a challenging competitive and consumer environment. That's why we are particularly pleased by the ongoing progress we saw in the second quarter when we gained further momentum in the areas that we are already performing well and so improvement in the areas where performance needed more focus and our aggressive has come from both stores and digital channels, wherever our guests wants to shop us. From market share perspective, we saw broad-based market share gains across all ad discretionary categories. In hardlines, comparable sales grew between 3% and 4% in the second quarter, the strongest performance we have seen in 10 years. Growth in this area was broad-based including double-digit growth in both videogames driven by Nintendo switch and Apple within electronics. Toys grew more than 3% with board games continuing to be a strong highlight. This is an area where we already enjoy a leading market share position, but continue to grow and take further share due to our focus on innovation and differentiation within our assortment.

Our apparel and home categories both grew sales and market share in these tough markets. In apparel, growth was widespread across subcategories as guests responded to fashion and newness all underpinned by value through great price right daily items. We were particularly pleased with the ongoing positive performance in kids, which continues to benefit from last year's launch of Cat & Jack and is now achieving strong year-on-year sales growth and in our strong swim business. Like a performance in board games, we came to the year with the number one market share in swim and have extended that lead to become the clear destination for swim in the U.S.

In home, digital was an important growth driver and we saw particularly strong performance from our threshold brand. We are also very pleased with the performance of our seasonal businesses from greeting cards to outdoor furniture. Within the seasonal event moments, our 4th of July holiday was strong as we quickly leverage guest and business insights from Memorial Day. In essentials, comp sales were up almost 1% benefiting from the launch of our Target Run and Done campaign that began in the first quarter. We are pleased with the response from our guests specifically with awareness and return on ad spend for this campaign, where results are higher than average. The top two messages guests recall from the campaign are that Target is convenient and I can fulfill all of my need to Target, which were our cool campaign goals. Essentials are also seeing the early benefit from our work to improve our value perception. Specifically, when we are price right daily on key audit and essentials, we are seeing increased traffic and unit sales trends.

As Brian mentioned earlier, comp sales in the food and beverage category have stabilized and were flat in the second quarter. We are seeing improvement based on our work to improve freshness and reliability as well as the work on value perception. In produce, we saw high single-digit comp increases in the second quarter driven by even stronger growth in organics. And in adult beverage, we saw ongoing double-digit comp growth driven by assortment and display enhancements we have been rolling out across the country. Importantly, we continue to build food and beverage expertise on our team. Following the hiring of Jeff Burt to lead food and beverage in merchandising at the end of the first quarter, we announced that we have hired two new members of his team earlier this week. Looking ahead, Japanese total team, are focused on building on recent momentum. We know we need to enhance our assortment of convenient options for our guests through this ready to eat, ready to heat or ready to cook and save families time and money. In addition, we are focused on enhancing our exclusive brand assortment in food and beverage, while ensuring we are priced-right daily on key opening price point items.

While overall we have much more to accomplish in the third quarter, our work to improve value perception across all of our assortment is already beginning to have an impact. Specifically, surveys are showing that consumers are noticing Target's investment in price and value and we saw a much stronger mix of regular price selling in the second quarter as we sort to simplify our promotions, clarify our voice and bring great price right daily items into focus. And it's working. In fact, our second quarter balance of regular and promotional sales was consistent with levels we haven't seen since 2012, well before our credit card data breach that changed our promotional cadence and stance.

Also encouraging was the fact that our unit share in key categories grew more quickly in dollar share, which is a key leading indicator of the impact of this work. At a high level, our second quarter average ticket also reflects the impact of this work. At first glance, reporting a slight decline in average ticket might not sound like good news, but when it's more than offset by an increase in traffic, the picture is more positive. As we dig into the drivers, the change in basket reflected two key factors. The first was a reduction in general incentive offers, which were replaced with better daily value pricing and more category focused discounts. The second was a meaningful increase in the number of quick trips and fill-in trips we saw from our guests.

As we mentioned last year, we saw an opportunity to more appropriately balance between stock-up trips and these quicker, smaller trips. So, we are pleased to see our strategy taking hold and generating both trips and conversion. This work on value perception is about ensuring we are price-right daily on key items while delivering more thoughtful and effective promotions throughout our assortments. In many categories, this means we are reducing our everyday pricing and communicating with much more clarity building confidence among our guests. We will expand the scope of this work in the third quarter and we will continue to measure and iterate based on the response.

Another aspect of our business where we are pleased with our progress is in our inventory position. We reduced out total inventory to last year by more than 4%, while improving the quality of our inventory by bringing unproductive inventory levels down to historical lows. The savings in markdowns through better sell through rates and lower inventory levels has created the capacity for us to invest in what's new and what's working which will position us well in the back half of the year. And we do have a lot of newness planned for the rest of the year, perhaps most notable of the new brands that either just launched or will rollout in the next few months.

In addition to Cloud Island which launched in May and it's already comping double digits, we launched Isabel Maternity in July. This new brand features the 120 key pieces designed to make every stage of maternity easy, comfortable, stylish and affordable with a focus on fit, function and fashion. And this new brand is already posting strong growth. And as we move into September, we are rolling out two new exclusive apparel brands. In women's we are launching A New Day, an apparel and accessories brand featuring a strong feminine aesthetic through modern prints and patterns with a focus on building confidence through stylish seasonal and basic items and stories that provide the ultimate wardrobe versatility.

And in men's we are launching Goodfellow & Company, which brings the new modern interpretation of classic books, focus on the strong foundation of core items based on insights our guests tell us they want, great quality, fit and fabric, but there is more in-store. In September we will also launch Project 62, a new home brand based on modern design that is thoughtful and approachable. We also built this brand from guest insights to capture their growing demand for modern design with a focus on solving the challenges of urban living including the need for easy mobility based on potential frequent moves. Items incorporate efficiency, simplicity and great design that make urban environments both highly beautiful and functional. Shortly after in October, we are excited to launch Joy Lab, a new women's athletic fashion apparel brand. Items were designed based on emerging street style that inspires fitness through fashion and building a community based on style and wellness taking you from crunches to brunches. Given the investment in developing this portfolio of new brands, we plan to support these launches with meaningful 360 degree investments in the way only Target can in marketing and digital on social media, in-store experiences with fixturing, mannequins and signage and in training for our store and digital teams.

It will be hard to miss the amount of newness you will see during the third quarter and we expect our guests will be excited to discover that there is indeed more in the store. Our product design and development, manufacturing, merchandising and marketing teams have been incredibly agile. Having begun their work on these new brands less than 10 months ago, it's amazing what they been able to accomplish together in this time by keeping truly aligned to our strategic choices. It adds up to a vast body of work and we can't wait to see all of these new items in our stores and online.

Our success last year in Pillowfort and Cat & Jack provided the proof of concept and gave us the confidence to begin work on these new brands. Both of those new kids brands were double digit comps in the year following their launch and they are both still growing in the second year while building trips category growth and store basket. And as Brian shared Cat & Jack is now a $2 billion brand based on sales volume in the last 12 months through

July of this year, exceeding our initial expectations. Of course we haven't forgotten the back-to-school and back-to-college key seasons which play a huge role in our third quarter results.

In back-to-school comps and market share have grown for 10 years straight. And we are focused on extending that record. We continue to invest in digital to support back-to-school including our school list assist site to provide guests a convenient way to access their child supply list and easily order any or all those items to be delivered to their home. More than a million lists are already available on the site, well ahead of last year and sell through the list site have been running 4x higher than a year ago. When students go back to college mom plays a huge role in making everything happen. So we have made sure this year's marketing speaks to moms as well as students. Hence those campuses that aren't lucky enough to have one of the use small format stores with pondering with Barnes & Noble College which operates nearly 800 college schools around the country to offer the Target assortment more than 5 million students.

And finally, given up our success, our team is really excited about the upcoming release in the Star Wars series. To get things started, we are launching our latest Star Wars assortments on September 1, which is being dubbed Force Friday. And to celebrate, we will be opening at midnight in 500 stores across the country. So okay, that's a lot of newness. I hope you see why we are so excited at Target about all of our strategies and plans coming to life. All of that work supports our long-term vision which is to build on the strengths that have made us such unique retailer for decades.

As Brian shared, we have build a brand from ends, a brand that offers the best of both mass and specialty. And we have the unique multi-category offering that allows us to drive traffic by leaning into core items and trends. And our brand is known for featuring new exclusive and truly differentiated items comprised own brands like Cat & Jack and national brands like Apple and Casper, because we are so unique, how to put in a box and we like that. We are at our best when we connect with our DNA, unleash the potential of our brand promise to expect more and to pay less, leverage our team and let Target be [indiscernible].

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

Cathy Smith

Thanks Mark. In the second quarter our traffic sales and financial performance were all better than expected. Notably, the upside to our expectations was broad based across the country, across channels and in all three months of the quarter. Second quarter comparable sales increased 1.3% driven by a traffic increase of 2.1%. We are particularly pleased to see this growth in traffic which reflects strong execution by our team and the early benefit of the work we are doing to transform our business. Our second quarter adjusted EPS of $1.23 was flat to last year. GAAP EPS was $0.01 lower than adjusted EPS reflecting some small unfavorable tax items not related to our current operations.

Both the GAAP and adjusted EPS lines reflect about $0.07 of favorability resulting from the net tax effect of our global sourcing operations. This favorability was included in the adjusted EPS calculation, because it reflects a structural benefit to our tax rate resulting from our operations. The amount recorded in the second quarter reflects the year-to-date benefit of our global operations on our tax rate and we expect to recognize an ongoing benefit in the range of $0.02 to $0.03 in both the third and fourth quarters as well. Our second quarter gross margin rate was down about 40 basis points to last year, driven by increased fulfillment costs and the impact of our efforts to improve pricing and promotions. Merchandise mix had a slightly positive impact on our gross margin rate in the quarter reflecting healthy performance in our signature businesses balanced by broad based strength in hardlines.

One note, beginning this quarter in our financial reporting we have reclassified depreciation expenses associated with our supply chain moving them into the cost of goods line on our P&L. This elective reclassification which resulted from an internal review of how we classify depreciation expense and discussions with the SEC during one of their routine reviews of our filings is reflected in our second quarter 2017 reporting. And we have reclassified prior year results as well. Obviously, this reclassification has no impact on our sales, EBIT, net earnings or EPS but result in equal and offsetting reductions to both our gross margin rate and depreciation and amortization expense rate.

To provide greater clarity, this morning we posted a document on our Investor Relations website that shows the impact of this reclassification on our quarterly gross margins and D&A rate over the last 3 years. That document shows that the reclassification impact has been either 30 basis points or 40 basis points reduction in our quarterly gross margin and D&A rate throughout that entire 3 year period. And one final note, with this reclassification we will no longer include EBITDA metrics in our segment table.

On the SG&A expense line we saw a year-over-year increase of about 50 basis points in the second quarter. This increase was driven by compensation costs reflecting the store labor investments that John highlighted earlier as well as higher bonus expense along with impairments related to anticipated store closures and our work to transform our supply chain. These costs were partially offset by the benefit of continued cost discipline throughout the organization. As I mentioned in one of our calls in 2016 for the last couple of years we have been working to create a culture of thoughtful cost discipline. And I am really pleased to see the ongoing benefit of that effort. I want to pause and thank the team both for their passion to transform our company and for their thoughtful cost management, which is helping to fund our investments in this transformation. At the end of the second quarter, our inventory was more than 4% lower than last year. This is vivid confirmation of the benefit of the work of both the operations and merchandising teams to reduce unproductive inventory and speed up our supply chain. These efforts are driving continued strong in stocks and sales growth on a smaller base of inventory.

Compounding that benefit, we are also beginning to see the impact of our work with vendors to ensure that Target's payment terms are in line with industry norms, which drove an increase in our payables in the second quarter. The combined benefit of these two factors was an increase in our inventory leverage of more than 10 percentage points compared to last year. The working capital benefit of this leverage improvement is substantial and will provide additional cash to support our transformation. In fact, we are now forecasting 2017 cash flow from operations will be higher than last year despite the operating income reduction we have planed for the year.

So now, as always I want to pause and reiterate our capital deployment priorities which have remained consistent for decades. We first invest capital into our business on projects that support our strategic and financial objectives. Second, we support our dividend and look to extend our record of raising the dividend annually since 1971. And finally, we repurchased our shares within the limits of our current single A credit ratings. In the second quarter, we devoted more than $700 million to capital investment, paid dividends in excess of $300 million and repurchased just under $300 million of our shares. For the year, we continued to expect that our CapEx will be in the $2 billion to $2.5 billion range. However, with the increase in 2018 remodels Brian mentioned earlier, we now expect next year's CapEx will be $3 billion or more somewhat higher than our previous expectations. This highlights our continued discipline regarding investment deployment. We will increase investment where we have seen solid returns to accelerate our transformation and long-term growth.

Our second quarter ROIC performance also highlights the benefit of disciplined capital management. Specifically in the 12 months through the second quarter, we generated a very healthy after-tax ROIC of 13.8%. This is about 10 basis points stronger than we reported in the second quarter a year ago if you exclude the gain from the sale of our pharmacy business. So even on lower operating income we have seen an improvement in ROIC, because we taken working capital out of our business.

Now, let's turn to our expectations for the third quarter and full year. As we look ahead, we will continue to move with urgency, but plan prudently. Of course, we are facing a tougher prior year comparison in the third quarter and we continue to expand the scope of our pricing and promotional work, which may create additional headwinds for the rest of the year. As a result, we expect our third quarter and fourth quarter comps will be within the range we established across the first two quarters of the year. For the full year, we expect that our comp will be in a range around plan plus or minus 1%. In the third quarter, we are planning for a declining event of approximately $230 million. More than half of this decline will be driven by D&A as we recognized accelerated depreciation related to the anticipated remodels we are planning for 2018. The remaining EBIT pressure will reflect this year's operating margin investments to support our transformation. Altogether, we are expecting GAAP and adjusted EPS in the $0.75 to $0.95 range in the third quarter.

Based on our better-than-expected performance in the first half of the year, we are now raising our full year GAAP EPS expectation to the range of $4.35 to $4.55 representing an increase of about 11% from our prior guidance range. Adjusted EPS is expected to be about $0.01 lower than GAAP EPS. Reflecting the tax matters excluded from adjusted EPS in the first half of the year.

Before I turn the call back over to Brian, I wanted to step back and look at the underlying strength of our business and how it is enabling our transformation through the first half of the year on sales of just over $32 billion, Target's operations have generated EBIT of more than $2 billion and nearly $3 billion of cash. We have deployed that cash to fund capital investment of more than $1.2 billion. We returned nearly $1.3 billion to our shareholders through dividends and share repurchases and we have retired about $600 million of our long-term debt. As I said in our financial community meeting at the beginning of the year, we are so fortunate to have such a strong business and balance sheet, which allow us to invest while many of our peers are pulling back. Not only do we have a plan to create a company that will thrive in this new era in retail, we have the financial strength to get us there.

So with that I will turn the call back over to Brian for some final remarks.

Brian Cornell

Thanks Cathy. Before we move to questions I want to thank you for your engagement and reiterate our commitment to moving quickly, thoughtfully investing in our long-term growth and strong execution every day. While we expect that the near-term environment will remain choppy, we are confident in our 3-year plan to build an even better Target. And our second quarter progress reinforces that confidence. That concludes our prepared remarks.

Now John, Mark, Cathy and I will be happy to take your questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions]

Brian Cornell

Operator, before we start taking questions I just want to make a couple of points. I recognized that our prepared comments today were rather lengthy, but we thought it would be important to give you a sense for the rest of the work taking place at Target today, an update on our progress and I hope we provided clarity around the key areas of focus over the balance of year and as we go into 2018. So with that we would love to open it up for your questions today.

Operator

Our first question comes from Matt Fassler with Goldman Sachs. Your line is open.

Matt Fassler

Thanks so much and the detail of your comments is very much appreciated. I have two brief questions for I think for Cathy, the first relates to the implied fourth quarter guidance which seems quite subdued relative to a tough fourth quarter a year ago despite the fact that I believe you have an extra week in the quarter and correct me on that if I am wrong. And then the follow-up to that is just you mentioned D&A moving higher, so if you could just give us some color on the magnitude of the move you would expect to off the restated D&A numbers? Thank you so much.

Cathy Smith

Good morning Matt. With regards to both third quarter, fourth quarter and full year we made our guidance as we said we will continue to move with urgency but plan prudently. And I think that’s what you should expect from us. We are finding – every time we see results coming from our investments we are choosing to continue to invest to accelerate our transformation. And so that's how I would think about the backside of full year. With regards to the reclassification we did on the supply chain depreciation expense, we posted a great schedule. John and the team posted today to the IR website gives you three full years by quarter. You can see but bottom line is 30 basis points to 40 basis points a quarter change. And you would see that shift from D&A to gross margins.

Matt Fassler

We have that, but just in terms of the – I think you said you expected D&A to be increasing at a faster rate as you accelerated depreciation associated with upcoming remodels, can you try to contextualize the expected increase, how much the pace of G&A growth will change?

Cathy Smith

Yes. So it is what's related – it's related to our increasing store remodels as we accelerate some of the depreciation there. And for the full year, I was just quickly looking here where you will see a little bit of continued pressure coming through. So it will pick up. We will follow-up with some specifics if you need it.

Matt Fassler

Perfect. Thank you so much.

Operator

The next question comes from Chris Horvers with JPMorgan. Your line is open.

Chris Horvers

Thanks. Good morning, you had a very strong electronics quarter that the switch which has been a huge hit double digit comps in that and in Apple iPad sounding like they are bouncing back, so it seems like there was a material contributor to same-store sales, how do you think about the sustainability of this benefit presumably the switch moderates but if you think the Apple benefits on tablet compares and the new phone and what are the categories do you think could come in and pick up for what the switch is provided?

Brian Cornell

Mark why don't you provide some insights into our view on electronics?

Mark Tritton

Yes. Thanks Chris. I think firstly just on the Apple comments, they weren't just driven by tablet, they are driven across the board in categories. And we had really strong showing in Q2 on the iWatch which we worked with Apple on clearly. And we have a lot in our plans for Q3 and Q4 with potential new launches as I have outlined. So we think there is still room for growth and continuing the trend. In terms of Nintendo Switch, we worked really closely with those guys as well to develop not only a product but a marketing campaign that the guests really responded to. And so we have been able to secure inventory and a plan all through the fourth quarter, so feeling positive about sustaining a trend there.

Brian Cornell

And Chris I think it's consistent with our focus on bringing newness to the guest. Not only in electronics but through our assortment, I think Mark and his team have done a terrific job working with our vendors and also building own brands that bring excitement and newness to our guests each and every day.

Chris Horvers

Understood. And then on the working capital, CapEx side you are seeing some very nice benefits here on working capital this year, how do you think about this year inventory outlook at the end of the year and the working capital benefit and you raised CapEx a bit next year, do you think that increased CapEx is largely offset by continued ongoing benefits in the working capital area?

Cathy Smith

So Chris as we have said, we know that we have got a multi-year journey around the supply chain transmission which will help that working capital continue to come through the business. And we wanted to make sure we will keep making that progress through time, so not going to commit longer term just yet as we – it's really going to be associated with the a lot of the supply chain transformation. On the increase in CapEx next year again, we are not giving all of next year guidance, but thought important to signal where we are going with our CapEx.

Chris Horvers

Understood, have great back half.

Brian Cornell

Thanks Chris.

Operator

Our next question comes from David Schick with Consumer Edge Research. Your line is open.

David Schick

Hi good morning and thanks for all the details. Really wanted to simplify into one question all these different tests and get at one issue whether it's the world, the tests of curbside and same day whether it's the rollout of in-store, all the work you are doing, could you talk about all the new initiatives and is it – does it have more traction with existing customers, anything you can share existing customers capturing back more of their wallet or is it new customers that are new to Target as you go through these new initiatives?

Brian Cornell

David, I would tell you it's the combination of both. And overall, we are very focused on improving the guest experience whether they are shopping in-store or online, making sure that we deepen the relationship with existing and new guests. And we are very pleased with the traffic increases we saw during the quarter. We are honestly very excited about the work that Mark and his team are doing around bringing new brands to our guests. And we have recognized that to move forward and to continue to execute, we have got to continue to make sure we are providing fulfillment options that our guests are looking for today. So as John talked about during our prepared comments, we are very focused right now on testing and expanding different fulfillment options. We have seen some very positive responses to think like Target Restock and we are going to continue to ensure that we can meet the needs of our guests no matter how they want to shop at Target.

David Schick

Thanks. Just as a sort of an add-on to that, one other things over the last decade that some retailers run into with all these attempts to reengage of a lot of which are very exciting is either overdoing it or over complicating it, how are you guarding against at the store level the associates not being overwhelmed by these initiatives and managing through that?

Brian Cornell

It is a very important question and I am going to turn it over to John here to build on that. But we are trying to make sure we are very, very focused right now. And we have the guests in mind first that the initiatives that we are bringing forward are guest centered, but importantly that we have the right focus on execution each and every day. And I think what we saw in the second quarter is a byproduct of our focus on execution each and every day in our stores, online, in our supply chain and I think you are starting to see that focus really connect with the guests.

John Mulligan

Dave, I think the other thing I would add, you are 100% right about the focus. I think the key challenge there for us is to continue to take work that is not guests facing out of the store and guest facing work there like we study investments we are making in food and beverage and beauty, in visual merchandising, that includes things like order pickup and shipping from the store. But there are opportunities everywhere else to pull work out of the store and I think the stores teams have done a great job optimizing within the box. We need to continue to optimize upstream to help them take work out and that's a lot of testing we are doing today. I didn't talk a lot about it, but we have tests going on in multiple parts of the country, focused on taking work out of the store, so they can be focused on the guests.

David Schick

Thanks so much.

Brian Cornell

Thank you.

Operator

Our next question is from Robby Ohmes with Bank of America/Merrill Lynch. Your line is open.

Robby Ohmes

Good morning. Hey. Thanks for taking my questions. Brian the – you guys have been mentioning the environment challenges and we are seeing very aggressive promotions out there in categories like apparel, your store traffic improved a lot this quarter, I am just curious are there – can you give us any color – are you picking up more share from competitor store closings than you would have thought? And then also as you shift more to EDLP while others are getting maybe more promotional, any insights from what you have seen so far in August that you can share with us on how all this is working out? And sorry just to add on this also and I don't know whether John Mulligan or Mark want to jump in on this, but as you pulled back up almost more you shift more to EDLP, can you remind us where things like cartwheel fit into that as you move forward and also how you see Red Card penetration playing out in your strategy? Thanks.

Brian Cornell

So, Robby, there is 4 or 5 different questions there and we will try to un-bundle each of them. But as Mark talked about during his prepared comments during the second quarter, we saw very strong market share growth across a number of categories. We continue to see share growth in apparel, in home, in hardline and one of the things that I think we felt best about in the quarter and it's a byproduct of the work we have done from a promo standpoint as we continue to see our business in essentials shift back to regular price sales and the impact of our new marketing and advertising campaign, the Target Run and Done campaign, which has driven really positive reaction from the guests and accelerated our business in essentials. So, that was a real big highlight for us in the second quarter. And we have talked about this before. We are at our best when we balanced both style and household essentials and you are seeing that balance come to play in the second quarter and we certainly are going to continue that over the balance of the year and into 2018. So, it was a period of time where we felt good about the progress we are making as we pickup market share in many of our signature and style categories. We have seen growth in our essential businesses and we will build off of that as we go into the balance of 2017 and '18.

Cathy Smith

Sorry, Robby, around Cartwheel. So, Cartwheel remains a really viable promotional vehicle and gets engaging the tool for us. And what we are doing though in the simplification of our pricing messaging and creating great price right daily items is we are using Cartwheel, but we are reducing the amount of stock that's coming in and that's really helping us to clarify and simplify our message to the guests about what true everyday value is as well as what's an exceptional promotion. So, the re-scoping of that has been tremendous thus far and we are really – our regular business is shining and our promotional business risk out in a great way.

Robby Ohmes

And any chance we can get you guys to comment on August?

Brian Cornell

Obviously, not.

Robby Ohmes

Great job, Brian. Thanks so much.

Brian Cornell

Thank you. Appreciate it, Robby.

Operator

Our next question comes from Bob Summers with Macquarie. Your line is open.

Bob Summers

Hey, good morning, guys.

Brian Cornell

Good morning, Bob.

Bob Summers

Just two questions, you have had some recent hires in sort of the food umbrella, I am just curious as to how the new individual fit into the current strategy and whether this is a catalyst for shift and maybe something more into the prepared food sort of side of the equation? And then secondly, if you are willing to comment, I would love to know what the trends look like, the business trends look like in and around Prime Day?

Brian Cornell

Yes. Why don't we turn it over to Mark to talk about both food and what we saw during that Prime period?

Mark Tritton

Thanks Bob. I think that we outlined in our Q1 comments around the emergence of our strategy that we are going to be on the journey of implementation as Jeff joined us in the business. And Jeff has already come in and begun start testing and iterating new ideas and concepts on top of our strategies that are creating growth vehicles. So, we are excited about that, the new people entering our business and just creating new strength against the strategic intent. So, firstly, Liz Nordlie will add value to own brand growth potential there and strengthen our efforts there as well as Mark Kenny, really with his expertise in general grocery but specifically in the convenient meal area and in bakery etcetera. I mean, that is part of our ongoing strategic intent to strengthen and focus there. So, these are key investments in our strategy and in our team balancing them against existing talent. In regards to your query around Prime, we were really happy to see ongoing trends maintain during Prime and we had positive comps and a really strong growth in regular price business continuing through those days but on in-store and online.

Bob Summers

Okay, great. Thank you.

Brian Cornell

Bob, thank you.

Operator

Our next question comes from Peter Benedict with Robert Baird. Your line is open.

Peter Benedict

Alright, guys. Thanks. And Mark, I just was hoping you could expand maybe a little bit on some of the merchandising assortment changes that you are making in the consumable side of the business to food area, particularly in pet food, what's going on there and anything to note there from a remodel prospective?

Mark Tritton

Yes, thanks Peter. So, let me just start with pet. I mean, we announced this month the addition of Blue Buffalo to our assortment, which is the number one brand in the U.S. and a really core assortment to get. So excited to add that into our mix and we already have a lot of data from our guests is just that they wanted to see that at Target. We also embarked on an agreement with BarkBox. So, really refocusing our accessory and our total assortment of doing business inside pet, so an exciting uptick there, because that brings further guests trips and conversion. Around the food and beverage area in terms of general assortment, we are still working on there and more to follow.

Peter Benedict

That's helpful. And then just leveraging on that, when you think about the private brand introductions, I mean, good color on what's coming this year, but when we think about next year, is it continue to be in kind of the signature categories or should we expect some private brand introductions to start to emerge on the consumable side of the store? Thank you.

Mark Tritton

I think that we have talked openly about a roster of more than 12 brands that we will be bringing to life over a period of time. We have begun that journey. That continues into 2018. It highlights definitely the signature areas, but the strength at providing differentiation exclusivity and therefore preference for Target through these is applicable to many different areas. So, we are looking at all areas and opportunities and we have some plans in place.

Peter Benedict

Okay, great. Thanks very much.

Operator

Our next question is from Brandon Fletcher with Bernstein. Your line is open.

Brandon Fletcher

Hey, guys. Fantastic quarter. Congratulations. The only question I have essentially just on the pick for store concept, I just want to share a comment we had from an industrial engineer that was working for mew a long time ago that it's about as efficient as a driver who takes three rides to take a left. There is massive cost when you have people walk the store instead of being your customers and walk it back out on a simulated basis. I get incrementally. I get that you don't have to have the checkout cost and that offsets a little bit. Is there something that's coming that you guys are confident on the operational side that will make you pick from store the way you guys are doing it better than lots of other folks, so that we don't face as much of efficiency? And similarly, will the remodels make those operational changes you think less difficult or more efficient in terms of cost structure?

Brian Cornell

Yes, hi Brandon. I think anytime you focus on just one slice of the total fulfillment, you lose picture for the whole thing right, we are trying to optimize the total economics for Target and those economics include investments, capital investments we might otherwise have to make if we don't utilize the existing assets. So, I think we can point to any one slice and say this was going to be better or worse, but again we are optimizing total economic picture and I'd have you think about that. I think the remodels where they will really help us and it's in conjunction with us taking inventory out of the backroom is our ability to optimize that backroom more efficiently to drive more productivity as we shift from the store. And so that's the real opportunity as we go through the remodel cycle.

Brandon Fletcher

That's the micro fulfillment in the backrooms would be one of the benefit to remodels?

Brian Cornell

For sure. And in conjunction with operating changes to reduce inventory like I was talking about earlier and taking work out of that – other work out of the store.

Brandon Fletcher

It sounds great. Thank you.

Brian Cornell

Thank you.

Operator

Our next question is from Michael Lasser with UBS. Your line is open.

Michael Lasser

Good morning. Thanks a lot for taking my question. Can you quantify how much of the $1 billion of operating profit investment you plan to make has already been deployed thus far this year?

Cathy Smith

Good morning, Michael. As you saw in the quarter, we are seeing the continued investment in both the SG&A as well as gross margin. We also though are working really hard to make sure that we can offset with efficiencies throughout the organization where appropriate. And so you are seeing that you saw it come through in SG&A and in gross margin this second quarter, you saw it in the first quarter as well. We continue to do that. So, where we see the investments give the return that we expect and the results we expect we are investing faster and heavier to accelerate the transformation. So, I would say we are on path to what we said we would do and you are seeing it come through in both Q1 and Q2.

Brian Cornell

Operator, we have got time for one last question.

Operator

Thank you. Your final question is from Kate McShane with Citi. Your line is open.

Kate McShane

Hi, thanks. Good morning. Thanks for taking my question. I wanted to just ask about promotions a little bit more if you don't mind. I know management promotions are fluid, but how much more work do you need to do in moving your categories in products to EDLP and what – where are these changes impacting the second half outlook and I know you have mentioned that there has been challenges in the past in terms of conveying value to your guests and I just wondered how this messaging has changed?

Mark Tritton

Yes. Hi Kate, I will take that one. So our promotional efforts are really rolled through the quarter even. And we began them in first quarter in April and a second round of taking key items that comprise our guest basket and focusing on priced right daily items really took hold and then second wave in – by the end of July. The next round of that is through October and that's when we will be coming together to have a more concise in-store marketing campaign and regular cadence of new ways [ph] to the guest to communicate value. So we think at that point that we have a strong base to maintain and this is why in half two we have been prudent in how we forecasted our sales and margin based on also unit growth initially. We see trip growth initially and we need to see that dollar growth balanced out over time. But we know that we have been patient with that, hence some of that earlier discussions at the start of the year about investing ahead of.

Brian Cornell

I think promotions along with many of the other things we talked about are still obviously in the early stages. We are excited about the results that we have seen with remodels, but we have hundreds of stores in front of us. We have seen great response to some of our small format but again we will open up dozens of additional stores over the next couple of years. The brands that we have launched have been well received, but we are really just getting into in the heart of the brand launches as we go in the back half of '17 and '18 as well as the pricing and promo work. So we are very pleased with the progress. We know we have got much more work in front us, but we thought today would be a great chance to give you a progress report and give you a sense for the amount of work and the scope of work that's taking place within Target. So that concludes our second quarter 2017 earnings call. I really appreciate all of you participating. So thank you.