Thanks, John, and good morning, everyone. At our financial community meeting, in February, we outlined our multi-year plan to position Target to deliver consistent growth, market share gains and outstanding financial performance over the long-term. This plan includes capital investments of more than $7 billion over the next three years, focused on continued investments in technology and our supply chain to build a smart network; a network that leverages all of our store and distribution assets to serve our guests more quickly and flexibly in every channel.

Investments to re-imagine the shopping experience in more than 600 of our existing stores and the addition of more than 100 new small format locations around the country. On top of these capital investments, we discussed our plan to invest $1 billion of operating margin this year to allow us to move faster and support of our strategic priorities. We said our biggest operating investment will be in our team, equipping them to deliver enhanced service, convenience and deeper product expertise; as we prepare for the launch of 12 new and exciting brands over the next two years.

Beyond these expense investments, we outline our expectation for gross margin pressure, resulting from the continued rapid increase in digital fulfillment combined with the price investments to support our everyday value proposition in key categories. Among all the things we covered in detailed at the meeting, one message I don't believe we emphasize enough, is our continued commitments to strong execution, everyday and every part of our business.

While we certainly need to focus intently on delivering our long-term commitments, we need to maintain an equal focus on maximizing the performance of our business every day, both in store and online, delivering for our guests and our shareholders. So I want to thank our team for very strong execution in the first quarter in a very choppy environment. They delivered sales and profitability that was meaningfully better than our expectations.

In February, we provided first quarter and full year guidance. We emphasize that our goal is to plan prudently and prepare to chase business when the opportunity arises. And that's exactly what happened in the first quarter, following very soft trends in late-January and into February, we saw an acceleration beginning in late February which was offset by better than expected sales in March and April. While our comp sales were strongest in April, if we adjust for the Easter shift, we saw our best results in March.

While we were pleased that our first quarter financial performance was better than expectations, our results are not where we want them to be, and we have much more work to do. Week-to-week results have been volatile since Christmas and overall traffic declined nearly 1% in the first quarter. Along with this traffic decline, comp sales in both essentials and food and beverages were down as well. As we've mentioned in previous calls, we believe that consumer perception of value at Target have not reflected how well or out-the-door prices really are. As a result, we’re in the early stages of implementing merchandising and marketing efforts to improve Target's value perception with guests and reestablish everyday price credibility on key items.

As we implement those changes, we plan to measure carefully and adjust based on how guest respond. To support these efforts in our marketing, late in first quarter, we launched a new ad campaign focused on our convenient and low price assortment of everyday items. Reminding guests they can save time and money by making a Target run to their nearby store. And for guest that prefer to get their essentials at home, we recently announced that we're testing Target Restock, which will allow guests to order a large box filled with items they choose from a selection of thousands of essential items. We've been testing this service for team members here in the Twin Cities and we're preparing to extend this test to local Red Card holders in the near future. While some specifics to the offer have yet to be finalized, we expect to have a very competitive service compared with alternatives that are already in the marketplace.

Beyond essentials, we are focused on growing the signature portion of our business and we continue to be pleased with the performance of Cat & Jack and Pillowfort, the new apparel and home brands we launched for the kids last year.

Based on our insights from last year's launches, Mark and his team are preparing to rollout additional brands later in the year as part of our plan to launch 12 new brands across our signature categories over the next two years.

Beyond these efforts to re-imagine our exclusive brand portfolio, we continue to find new opportunities to partner with world class designers and brands and deliver unique style and unbeatable value for our guests. In the first quarter, we were pleased with the results from our limited time partnership with Victoria Beckham, which proved to be one of the single biggest partnerships in our history.

In the digital channel, sales increased 22% in the first quarter, much faster than the growth rate of the industry. Mike McNamara and his team continue to work closely with both John’s team and Mark’s team to develop and roll out new capabilities, highlight our differentiated assortment and elevate the guest experience by providing more speed and convenience.

We invested nearly $500 million of capital in the first quarter and we're on track to invest more than $2 billion this year. Our technology and supply chain investments are focused on delivering a superior guest experience in every channel. In addition to new capabilities like Target Restock, we provide convenience we're working to deliver a more inspirational digital experience, like the 360 degree shopping experience we just launched on our site.

This capability was delivered by our CGI team and we're investing to grow that team so we can rapidly roll-out additional experiences overtime. Beyond our continued investments in technology and supply chain, we're in the early stages of work to transform our existing store base and add to our portfolio of new small format stores around the country.

In the first quarter, we completed 21 existing store remodels and opened four new small format locations. For the year, we're on track to deliver our goal to complete 100 remodels and add 30 small format stores. I personally visited many of these locations and the results look terrific. As we described in February, we are fortunate to have a strong balance sheet and a business that generates robust cash flow.

Unlike many competitors, we have the resource to allow us to invest in the transformation of our business and position Target to compete in this new era in retail. Because our business is so strong, we expect to fund these long-term investments while continuing to support our dividend and annual dividend growth even during the period of transition. As we look ahead to the second quarter, we're committed to maintaining the cautious posture that service well in the first quarter. While consumer spending growth remains strong, we're seeing a continued shift towards experience, which is absorbing a meaningful portion of that growth.

In addition to these consumer headwinds, we expect to see continued pressure from competitive closings and liquidations, which represent a long-term opportunity but defers consumer spending in the near-term. And finally, our efforts to enhance value perception and regain everyday price credibility will likely create some near-term headwinds before we gain traction overtime.

So now I'd like to turn the call over to the team who will provide additional detail on our performance and focus going forward. Later in the call, Mark will cover category performance and his team's efforts to support both sides of our Expect More Pay Less brand promise. Then Cathy will provide more detail on our first quarter financial results and expectations for the second quarter and beyond. But first, I'm going to turn the call over to John who will cover the team's current efforts to modernize the supply chain in best and our store shopping experience and realize new capabilities for our guest. John?

John Mulligan

Thanks Brian. This morning, I'm going to provide an update on our progress in rapidly testing and rolling out supply chain and technology innovations. These innovations are designed to provide more convenience, inspiration and faster fulfillment on behalf of our guests, regardless of how they choose to shop. Then I'll highlight investments we're making in our stores to re-imagine the shopping experience and roll-out new capabilities that will help us drive sales in all channels.

In our supply chain and technology areas, our teams are moving quickly, testing and iterating on our ability to increase speed and offer new services for our guests. In our Tribeca store in New York City, we are ready to begin a test in which we will offer same day delivery to guest at that store. At checkout, guests will have the option to choose to have their orders delivered to their home later that day in a scheduled delivery window of their choice. This test presents an opportunity to gauge guest demand for this service. In a high traffic location filled with urban guests who will appreciate the convenience. Through this test, we will begin insights about potential operational challenges and determine appropriate pricing and delivery windows based on guest preferences. This will help us to understand the potential to rollout a similar service more broadly overtime.

When I moved into my role leading operations, one the first things I've learned is that any supply chain test has to be accomplished in tandem with our current operations. As a result, we have to be very thoughtful about how we conduct the test, because we don't want to make changes that might impair day-to-day reliability. In the second quarter, we plan to open a new facility in the North East that will allow us to test differentiated distribution capabilities, including store replenishment based on the appropriate unit of measure on every item, including palettes, key specs and niches. By testing out of a separate facility, we can implement without disrupting day-to-day operations in any of our current facilities.

This new facility will help us learn quickly about both opportunities and complexities associated with this new distribution model. I want to stress that we're opening this facility so we can test and learn quickly, not to create new capacity. In fact, given our opportunity to continue increasing the speed and flexibility of our entire supply chain and leverage our stores to enable digital fulfillment, we have ample capacity within our current network to grow for many years. As we gain insights from the test in this separate facility, we will be better informed and prepared to rollout this new model into existing facilities overtime.

Prior to the launch of the new East Coast facility, we have been testing daily customer replenishment based on niches in a single store here in the Twin Cities market. This store has much lower volume than our stores in the North East, which provided us some much lower risk environment for this early test. Results have been encouraging as we've been able to dramatically reduce store labor dedicated to unloading trucks and stocking the sales floor freeing up time for the team to focus on serving guests.

In addition, we've been able to reduce inventory meaningfully and nearly eliminate backroom inventory of the items included in the test. And that's just some early bumps we've done so without affecting out stocks. With these insights, we are ready to move onto the next stage of testing with the new facility, and the team is eager to begin evaluating the results. With a faster and more reliable supply chain, we can develop new ways to leverage our stores and enhance convenience for our guests.

An example is our upcoming pilot of Target Restock, which will begin rolling out to Twin City's Red Card holders this quarter. This service allows guests to order a restock shipping box filled with essential items, like toothpaste, diapers, coffee and cereal and have been delivered to their homes quickly for a low flat fee. For the pilot, guests will have access to more than 8,000 items and will continue to experiment expand the offering based on our learnings and guest feedback. Because the items we package and deliver from a nearby store, orders placed before 1:30 pm will be delivered on the following business day. We built the Target restock site and supporting back-end operations for Twin Cities' team member test in just 35 days. Based on what we've learned in that test, we will launch an enhanced site for the Twin Cities' pilot and continue to iterate on the experience.

As we discussed at our Analyst Day, we believe that the future retail is both digital and physical and successful retailers will need to provide an outstanding experience in both. That's why we're moving quickly to elevate both the digital and in-store shopping experience, driving guest engagement and sales in every channel. For digital shopping, the challenge is to make it more experiential, delivering more of the inspiration you can find in a physical store. To elevate the digital experience in furniture and décor, which are already large and growing online businesses for us, we recently rolled out 360 degree shoppable living room, which serve as a digital showroom. Seeing the products staged in rooms in relation to other products helps guests to better understand the size and style of an item making it easier to shop. The experience will initially present about 120 products across four design aesthetics.

As you know, more than 40% of our digital volume already runs through our stores, and we peaked at more than 80% last holiday season because we can offer both order pickup and ship orders directly from our stores. While all of our stores have offered order pick up for several years, we’ve worked hard to improve the experience and encourage repeat uses by our guests. And we’ve seen a pay off from these efforts.

In the first quarter, more than 95% of in-store pick up orders were ready for guests in an hour less, up more than 3 percentage points from a year ago. Our net promoter score for the order pickup experience is improving steadily and is now actually higher than the score for our stores overall. In light of these trends, it's not surprising that repeat usage of order pickup has increased meaningfully compared with the year ago.

First quarter ship from store volume was more than double last year’s amount, accounting for 27% of our digital sales. This growth was partially driven by approximately 600 shipped from store locations and we’ve added since last year. However, the increase was also driven by additional volume running through stores that had this capability for more than a year. Specifically, for the 460 stores that were shipping directly to guests in the first quarter last year, year-over-year growth in shipped from store volume was 32% this quarter.

We continue to be very pleased with the ability of our stores to accommodate these higher volumes, and our supply chain team is enhancing end-to-end processes to allow for additional volume overtime. And importantly, the ability to ship directly from stores to nearby guests reduces our last mile shipping cost dramatically. Beyond digital capabilities in our stores, we are also investing in our team in the front of the store. We’re providing tools and changing processes to enhance our team’s availability on the sales force and making sure they are available during all hours the store is open.

In addition, we’re investing in training to equip our store team member with more product expertise in key areas like food and beverage, beauty, apparel and electronics. And of course, we’d begun investing in our existing stores to elevate the physical environment along with our level of service. Given that, our 21 first quarter remodels will only continue recently, we don’t yet have a statistically significant read on post remodel performance, but early results are very encouraging.

However, for the set of remodels we completed last fall, we have been measuring overall results in line with our expected 2% to 4% lift following completion. Most encouraging for the 10 fold remodels in which the layout is more similar to the new layout we will roll out in Houston later this year, we have seen lifts near the high-end of that range. It's also important to note that we have a customized approach to remodels, and we have a low cost, high impact model that we can bring to our lower volume stores.

Even on lower investment in the range of $3 million, there is a meaningful change in the look and feel of the store and we see guest respond to that change, driving very healthy lifts in the 2% to 4% range as well. Finally, we continue to be pleased with the performance of our new small format stores, which generate more than double the per foot sales productivity of our larger format stores. While we're happy with the performance of these smaller stores when they open, what's most encouraging is the continued growth we're seeing when the stores become mature.

Specifically, for our 10 mature small format stores, we are seeing double-digit comp increases on average so far this year. So I hope it's clear that our team is busy and energized, moving quickly with purpose to improve speed and agility to better serve our guests in every channel. Despite a challenging environment, I've never seen the team more focused on what need to deliver and more confident in our path forward.

Now, I'll turn call over to Mark, who'll provide more details on our performance and plans in merchandizing. Mark?

Mark Tritton

Thanks, John. As Brian mentioned earlier, we have seen very choppy trends since the end of the holiday season, and our team has moved quickly to adjusting real time. We've began seeing signs of improvement in late February and we've saw the strongest performance compared with our forecast in March.

We've maintained solid results in April, benefitting from both our Victoria Beckham partnership and the Easter holiday. As we've said many times, Target is a holiday destination and we've certainly saw that journey in Easter season. We saw the strongest growth in Candy and Easter day call, but we're also pleased with performance in toys and kids' apparel in the weeks leading up to the holiday.

And then this Victoria Beckham; given the brand she has created, we need that our partnership with her would be big and have delivered. More than half of our Victoria Beckham sales were made up by our most loyal guests. And in five cities we hosted our best Red Card Guests at exclusive events, providing early access to her products. Victoria Beckham baskets were more than twice the size of our average transaction and they weren't just focused on her items. In fact, there were nearly balanced between Victoria Beckham items and items from our broader assortment. And not surprisingly, her items sold particularly well first online.

Overall, we are very pleased with the results of this partnership, which has proven to be one of the biggest in our history. While macro factors likely drove some of the acceleration in March and April, we also saw the impact of warmer weather on our seasonal categories and our electronics business lift forward with the launch of the Nintendo Switch. Nintendo has long been aligned with our brand given their history of delivering hardware and games are entitled around activity and families. We worked closely with Nintendo team to launch the Switch supported by a multi-fascinated marketing plan that was a visible both inside and outside our source.

We also supported the launch online and saw great results by delivering a bundled offer for the Switch on our site. As a result, these efforts we've enjoyed a mid-teens market share in Switch since the launch. This is the great example of the power for successful collaboration with a national brand and why we love to partner with world class brands to create Target unique differentiated experiences for consumers.

Beyond video games, electronics also benefited from healthy growth in Apple Watch and iPhone during the quarter. As a result, for the first quarter in total, electronics delivered a mid-single digit comp sales increase, the strongest in three years. In apparel, trends have been challenging across the industry and we saw a small decline at apparel comps in the first quarter. However, when we compare our results to the industry, we continue to measure meaningful market share gains.

Last year, our apparel sales and market share gains were heavily concentrated in women's ready-to-wear and kids' apparel. This year, those categories continue to gain share, but we're also seeing gains across all of the subcategories, including, men's apparel, intimates and performance activewear. Trends in activewear have improved meaningfully since the relaunch of our C9 brand after the holiday season.

Swim is another big first quarter story in apparel, and we expect that to continue all year. As you know, we already have the number one unit share in swim. But as other retailers begin closing and exiting this business, we saw a big opportunity to gain an even stronger position. Our team worked quickly to launch our new brand Shade & Shore, which has delivered strong results in its launch. Given this momentum, we expect to see continued growth in swim in the second quarter and beyond.

For our less discretionary essentials and food beverage businesses, first quarter market share trends were more challenging. For the quarter, we saw low single digit comp declines in both of these business and we are taking steps to regain our value and every day price perception in both of these. This would begin in the first quarter and we recently launched our TargetRun and Done marketing campaign to support that work, but we have much more to do. In the second quarter and beyond, we will continue to invest in our regular prices and reinforce our everyday positioning. An important part of that work is to adjust our promotional posture on those items and categories so they better support everyday message.

In addition, we will work to balance our promotional posture between stock up offers and factors important for fielding trips, including an emphasis on individual items and low opening price points. I want to stress that this work is very detailed and surgical. There isn't a single solution across items and categories so that our team will be testing and iterating at a very granule level and they will be expanding the scope of their work as the year progresses.

Importantly, as Brian mentioned, as we are implementing these changes, we may see added pressure before we begin to see the benefits. However, we know this is the right thing to do and we're committed to making these changes to better position our business over the long-term. More value in everyday price perception are a challenge in our food and beverage category, I want to stress that we are seeing a couple of bright spots. First, we saw a small increase in produce comps in the first quarter, reflecting the work we've done to gain credibility in this key part of the assortment.

We have worked with the projects vendors to reduce the time from their fields to our network and John's team has increased the speed of produce items into our stores once they reach that network. As a result, freshness and in stocks have been improving. We're also benefitting from the work in our stores to higher grocery experts and organize specialized teams who now own the end-to-end process in those stores. Another great bright spot is our adult beverage business, which saw a mid single digit comp increase this quarter. We continue to focus on developing localized assortments and more compelling displays, and our guests are really responding.

We plan to expand space for adult beverage in more than 100 additional stores in the second quarter with more planned to the third quarter and beyond. I also want to pause and welcome Jeff Burt who joined us in April to lead our food and beverage team. Jeff comes to us with more than 30 years or grocery experience, most recently leading Fred Meyer. Jeff is off to a great start, and I look forward to working with him to further strengthen this business overtime.

At our financial community meeting, in February, we announced our plan to roll out 12 new exclusive brands across our signature categories through next year, and we're getting ready to launch the first of those brands later this month. It's called Cloud Island, and it's a new exclusive line of nursery décor, bedding, bath and layette products designed by our own internal design team. We build this collection of more than 500 items to be both stylish and affordable with a focus on safety, durability and comfort.

We'll roll out the décor and bedding items to all stores and our five beginning May 28th and we'll follow with the bath and layout pieces later in the summer. This new brand is a natural addition to the successful kids' brands we launched last year Pillorfort and Cat & Jack, which continued to perform really well. The guest response to Cat & Jack, in particular, has been amazing. Among guest who purchased kids apparel for Target in the months leading up to the launch of this new brand, spending on kids' apparel increased more than 50% in the months following the launch.

This increase in spend was driven by both frequency and spend per visit. Even more encouraging, the launch board in NGN traffic to the whole category, leading to an increase in spending on kids closet Target even among guests who didn't by Cat & Jack. This shows why we are so excited about our plans to launch additional signature category brands later in the year and even more next year.

So in closing, let me leave you with a final thought. We understand that we are in the midst of very challenging period in retail and we're in the early stages of our plans to transform our business. That said you wouldn't feel that why if you interacted with our team, they're energized and hungry to win and focused on doing what it takes to get there.

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

Cathy Smith

Thanks Mark. When we provided first quarter guidance at our financial community meeting, we described the challenging results we had seen so far in February. At the time, there were theories for why things might improve, but we felt it was best to plan for those challenging trends to continue and react quickly if conditions improved.

As we look ahead, we believe it's appropriate to continue to take this cautious approach as we plan for the rest of the year. After all, the environment remains volatile and the disruption from competitor closings doesn't look like it will change anytime soon. For the first quarter, comparable sale fell 1.3%, a little over half of this decline was driven by traffic, combined with a small decrease in average ticket. As we've said many times, traffic is the key metric for us, so we're taking steps this year to put us on the path back to growth overtime.

First quarter gross margin rate was down about 40 basis points to last year, driven by increased fulfillment cost resulting from the growth in our digital sales. Merchandise mix had a roughly neutral effect on our gross margin rate this quarter, reflecting the acceleration in electronics that Mark described earlier. While gross margin dollars declined about $130 million from last year, this performance was much better than expected, driven by better than expected sales and fewer clearance markdowns compared with our plans.

On the SG&A expense line, first quarter dollars and rates were better than expected as well. Consistent with our plan for the year, we began ramping up store labor on the sales floor. But in the first quarter, those investments in front-end labor were offset by savings in backroom logistics. In addition, we saw some timing favorability on several expense lines in the first quarter, which we now expect to see in the second quarter.

Our first quarter depreciation and amortization rate was up about 20 basis points compared with last year, reflecting increased costs from our remodel program on a lower base of sale. Altogether, our EBIT rate was 7.4% in the quarter, down from a very strong 8.2% last quarter. At the end of the quarter, inventory was more than 5% lower than a year ago, reflecting the early impact of our work to increase the speed of our supply chain. As I've mentioned before, we believe we have a compelling opportunity to free up working capital overtime by increasing the speed and accuracy of our supply chain. We're in the beginning stages of that journey, but it is encouraging to see early signs of progress.

As Brian mentioned, we invested just under $500 million of capital in the first quarter, a portion of these investments was focused on our stores as we started to transform the shopping experience in existing locations. In addition, we continue to grow our portfolio of small format stores.

We also invested in supply chain and technology to support new capabilities, including those John described earlier. For the year, we will continue to focus our investments on these priorities and we expect our full year CapEx will be in the range of $2 billion to $2.5 billion. On top of expenditures for new capital, we paid more than $330 million in dividends in the first quarter, and repurchased just over $300 million of our stock, primarily through a pre-existing trading plan that was put in place last year.

As we consider full year capital deployment and cash flow compared with last year, higher CapEx and lower EBITDA will certainly put some downward pressure on cash flow. However, we also expect some offset in tailwinds in 2017 as we continue to reduce working capital.

Altogether, as we discussed at our Analyst Day, we expect to continue to have ample capacity to support the dividend and grow annually. And overtime, to the extent we have excess cash beyond CapEx and dividends, within the limits of our current debt ratings we expect to have the capacity to repurchase our shares. However, given the recent changes in our operating model, we will stay relatively cautious about the pace of share repurchase in the near term.

My final comment on the first quarter is in reference to our return on invested capital. We earned an after tax ROIC of 14.2% in the 12 months through the end of the first quarter. I hope you'd agree that is healthy performance in any industry and any environment, but it's also slightly better than Target's ROIC through the first quarter of last year, excluding the one-time gain from our sale of our pharmacy business. I think that's helpful perspective as we move through a year of meaningful transformation. We are blessed to have a business that continues to generate good returns and have a strong balance sheet. That powerful combination gives us the flexibility to make changes that will position our business for continued success in this rapidly changing period in retail.

Now, let's turn to our outlook for the second quarter and beyond. We are planning for a low-single digit decline in comparable sales in the second quarter. Just like the decision we face in the first quarter, we could plan for a more optimistic scenario but that would create undue risk in a very choppy environment. On the EBIT line, we are planning for a decline of just over $200 million compared with last year. We expect SG&A expense to be the primary driver of that decline as we continue to invest in store service and new capabilities, and we see the impact of the timing shift on several expense lines from the first quarter.

On the EPS line, these expectations translate to a range of $0.95 to $1.15 for both GAAP and adjusted EPS in the second quarter. For the full year, we are not updating our prior guidance. As a reminder, that guidance anticipates a low-single digit decline in comparable sales for the year and adjusted EPS of $3.80 to $4.20. Clearly, given that first quarter performance exceeded our expectations, there is a higher chance that we'll finish the year in the upper end of that range. However, with most of the year still ahead of us and the prospects for continued near term headwind, we believe these expectations are still appropriate.

Before I turn the call back over to Brian, I want to thank you for your continued engagement and support. Following our financial community meeting, we’ve heard from many of you and as always, we appreciate your perspective. What's most encouraging is your support of our strategy and the steps we're taking to position our business for the long-term. Just as we do, you clearly see the risks and challenges in this environment. So it's been very helpful to know that you also believe in our strategy and the long-term investments we are making in our business.

With that, I'll turn the call back over to Brian for some final remarks.

Brian Cornell

Before we turn to questions, I want to offer a few closing thoughts. First, while we're certainly pleased that Target's first quarter performance was better than expectations, we're not due any high fives in the room here today. Our first quarter performance is not what we expect to deliver overtime, and we're investing and moving quickly to deliver stronger, more consistent results in the future.

When we look ahead, we do so with our eyes wide open, aware of the challenges we're facing. But when I interact with our team, I see a lot of energy and optimism, a desire to deliver for our guests and win in the marketplace. What's most encouraging is the team's agility and responsiveness in a rapidly changing environment. When we're talking about the development of Target Restock by our technology and operations teams; the rollout of a new ad campaign by Target Run and Done from our marketing team; or the development and launch of a new brand like Shade & Shore for our merchandising team; everyone is focused on innovating rapidly like never before. I'm continually proud and impressed by what this team can accomplish.

This 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]. Our first question comes from Paul Trussell with Deutsche Bank. Sir, your line is open.

Paul Trussell

Wanted to just inquire about the initial guidance given this year around the $1 billion investment; you mentioned some timing factors between SG&A in 1Q and 2Q. But even looking at the guidance provided for 2Q, the first half is certainly running at a run-rate below that of $1 billion in investments. Help us just understand have there been meaningful offsets, or should we expect a spike perhaps in that investment pace in the second half?

Brian Cornell

We're very focused on executing the plan we've laid out back on February 28th. So you're going to continue to see us invest in store labor; making sure our standards continue to improve; and we saw very strong progress in the first quarter; invest in value, and continue to invest in the growth of our digital business. So over the course of the year, we're committed to executing against that plan. We'll see that continue over the second, third and fourth quarter. But the plan we've lead out back in February is the plan we're going to continue to focus on executing throughout the year.

Our overall focus is continue to see traffic patterns grow in our stores, improve and accelerate our digital performance; we want to make sure we're capturing market share as we did in the first quarter; continue to build and invest in our brands; and ultimately, improve our value proposition with the guest. So there is going to be no change to the plan we lead out in February. We're committed to executing and making those investments over the balance of the year.

Paul Trussell

Thank you for that color. And just as a quick follow up, Cathy, you gave guidance for negative low-single digit comps in 2Q. Just help us understand some more of the puts and takes from a category standpoint. How are you guys focused on improving traffic trends back into positive side -- on the positive standpoint and then also specifically if you can speak on food aiming essentials, is really what I will let to dig on how we get that positive as well? Thank you.

Cathy Smith

We are working to restore our positive traffic and more importantly preference over the long-term and I think that's everything you continue to hear us say. And so over the course of Q2, we're going to just keep doing what we said we would do, and that is we're going to make sure we're continuing to invest in a great experience for our guest, both online and in stores and you will see us doing that. Mark and the team has some really exciting things coming into Q2, but don't want to just miss the positives we saw around the category mix in Q1 even. So I was just going to tell you we're just in this for the longhaul, we're going to keep doing what we said we would do and restoring positive traffics high on our priority list. Mark, do you want to talk about anything in particular with regards to food and beverage?

Mark Tritton

Paul, in terms of the promotional posture and the price value equation, we've made some rapid changes in a number of our signature categories. But probably the key areas that we're focusing on of course the food and beverage and essentials. So we've been testing righting quickly since Q4 and then in Q1, and we'll see an evolving pattern of change and evolution on we'll roll out. But the communication to the guest and the simplification of our everyday price positioning, and you'll see that evolve more deeply in Q2 and then beyond.

Operator

Our next question comes from Simeon Gutman with Morgan Stanley. Your line is open.

Simeon Gutman

So just to follow up on the guidance for the second quarter, can you just talk about the change in momentum that you experienced in March. Do you think that was the environment improving or was it some of your actions? You mentioned, I think Victoria Beckham and I don't think these things have been material, but I know that that product line came in March. And I don't know the timing of electronics and switch. And then that compares I believe get easier or got easier in April and stay relatively easy for the quarter. Can you give us a sense, is the run rate deteriorating or is your outlook just being conservative at this point?

Brian Cornell

Simeon, let me start by really summarizing Q1 performance. And certainly, I think we saw some changes in the overall macro environment. But I also saw -- we also saw very strong execution, both from a digital standpoint where we grew the business by 22% but also meaningful changes in store. And I think our store standards and our store execution continues to improve. I also think we showed great adaptability in the marketplace. And I'll let Mark talk about some of the successes we saw in categories like apparel. But I'd highlight the efforts that we put behind our swim business where we start at number one share position, but we saw changes the marketplace competitive closures, competitive exits.

And as we talked about back in February, we are absolutely focused on taking advantage of marketshare opportunities over the next two or three years. And this is a great example where Mark and his team recognized the consumer opportunity, saw changes in the competitive environment, quickly built a brand by partnering with our vendors, and introduced Shade & Shore during the first quarter, which allowed us to take even more marketshare in swim. And it's a great example of the work that we're going to continue to focus on over the next few years.

Looking at the market, recognizing where we have competitive opportunities, where we can gain share and how we use both our digital and physical channels to meet the needs of the guest. Mark, what don't you just spend a few minutes, just talking about the work you and the team did to take advantage of the opportunity in Q1 with swim?

Mark Tritton

Yes, I think it's a great example of where we're excited about our new brand launches as we've been testing, learning and constantly iterating to create new ideas and they've really resonating with our guests. So as Brian talked about, the story here is really one about agility and marketing insight. So where we're already had a strong number one unit market positioning in swim, we didn't rest on our laurels, similarly to action in Kids. And we looked at this market with declining players and saw an opportunity to win even further.

So we looked at deep guest insights, market insight and worked really clearly closely with our vendor insights to create a new brand, a new paradigm and a new service level for our guests, all in a very rapid period of time. Launching Q1 Shade & Shore gain share and half amongst of our guests has creating accelerated growth, and real confidence for us as we do build our brand portfolio. And it's important to notice, as Brian said, this was an omnichannel play. So we looked at both stores and online to meet the guest needs and get exemplary results.

Simeon Gutman

And my follow-up…

Brian Cornell

More work to do as we go into Q2. And as we talked about during our prepared comments, Q1 we've remodeled 21 stores; we have got much more work to do over the balance of the year; we opened up four new small formats; we started to make very surgical investments in value; and simplify our value communication in store and amplify that with a new advertising campaign that we called Target Run and Done. So in the early stages, we're going to continue to build off of that. We want to make progress every quarter, but we recognize it's going to take time.

And we're going to stay very focused, very measured against the initiatives we've lead out. And quarter-by-quarter, we're going to strengthen our performance, continue to drive traffic to our stores, more visits to our site and capture market share as we improve our value perception and continue to build proprietary brands within our portfolio.

Simeon Gutman

And then if I could ask one follow up on investments, you mentioned you're starting to make some value investments. Can you give us any color on timeframe, on categories, is it broad based? And back to the earlier question, it looks like this quarter the decline in EBIT looked commensurate with the comp decline. It didn't look like this was a big period of investment. I think behind the scenes, there might be that we don't see. So just curious of how we should lay that out for the rest of the year?

Brian Cornell

Mark and Cathy have both discussed, we are making investments in value; very much focused on helpful essentials and food and beverage; those are going to continue over the balance of the year; and we're going to be very surgical; we're going to measure and iterate; we've already made some significant progress in simplifying our overall value and promo communication; and now we’re enhancing it with additional advertising dedicated to those core household essential items that drive trips to our stores. So you’re going to continue to see that focus not only over the balance of this year but overtime.

Cathy Smith

Maybe, Simeon, I'll add on just real quickly. So let’s look at the SG&A line, in particular, to give you an example. We invested more hours in the store and store service and store experience, and obviously, we also invested in marketing. But it's being offset because of all of the work we're doing around in our supply chain and fulfillment, in the backrooms of our stores we're starting to see some of the benefits there. Again, we're early days of a long journey. But you are seeing some of that offset. So it doesn’t show up as apparently on the SG&A. And then I’d remind you to look at, clearly not where we want to be, but sales down slightly and EBIT down quite a bit more. So the investments are coming through, as we said, and it's not going to show up in any given quarter, it's going to show up over the time.

Operator

Our next question comes from Edward Kelly with Credit Suisse. Your line is open.

Edward Kelly

Could you talk about how your strategy in food may evolve with hiring of Jeff Burt from Kroger? And I guess if you were to take a step back and really think about it. What are the two or three things that you really are looking for him to accomplish here?

Brian Cornell

Let me start. First of all, Jeff has only been on board for a handful of weeks, so still in the early period of time really trying to understand our business, assimilating to the Target environment. So we want to certainly give him plenty of time to assess our business and begin to build strategies, going forward. But I think it's important to recognize he's not starting from square one. Over the last couple of years, we've been very focused on improving the quality of our branch assortment. And the work that our merchandizing team and our supply chain team have done, we've made significant progress in improving freshness evolving our assortment to make sure we have more organic natural gluten free items in our assortment in each and every category where we participate in food and beverage.

As you heard us talk about time and time again over the last few quarters, we've made significant progress in categories like adult beverages. So Jeff will build off of that work. We certainly recognize based on the work we've done in Los Angeles with the LA 25 remodels and additional remodel activity in the Dallas, Fort Worth market that as we change the in-store environment and elevate the presentation, the guest is responding very, very well. So if we want to give Jeff plenty of time to take his own inventory, begin to build his own strategy that will enhance the work that we've been doing over the last couple of years. And we're very confident that overtime Jeff is going to build a plan that will allow us to continue to accelerate our performance in those important food and beverage categories.

Edward Kelly

Just a follow-up related to food, on Monday, there was an article in the journal about you guys I am sure you saw. There was a mention in there about maybe your interest in sprouts last year. I am just curious as to how do you think about acquisitions generally? And are you interested, willing and thinking about out of the box alternatives through maybe like M&A to reposition this business?

Brian Cornell

Ed, we look at M&A opportunities all the time, but we look at them through a filter of what's going to really enhance our current business initiatives. So I would put out of the box on the side and really think about M&A as something is going to compliment and strengthen our core strategy, help us accelerate complement the interaction we have with the Target guests, and we'll continue to look strategically at M&A opportunities overtime.

Operator

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

Michael Lasser

So, on the investments you're making this year. To what degree are you moderating and altering them based on the week-to-week and the sales trends that you're seeing? So if sales are better than expected, are you actually pulling back on some of those investments?

Brian Cornell

Michael, we are very focused on executing against the initiatives and investments we outlined earlier in the year. So we'll continue to iterate as we learn through our remodel experience, as we continue to open up new small formats. We learn every day as we develop new brands, but our focus remains the same. So you shouldn't expect to see any drastic changes. And we'll continue to mature those initiatives overtime.

Cathy Smith

And what I would say, Michael, is we're accelerating when we test and learn and validate we accelerate our investment into that area. And so that's where we're looking across the Company as only see an opportunity to accelerate something that's working along our strategy that's what we're doing.

Brian Cornell

But Michael, over the next couple of years, you should expect that to continue to focus on reimagining our existing stores; adding new small formats to bring us into urban market and on to college campuses; our continued investments in supply chain and technology; the support of our new brand that we'll be launching over the next 18 months; those commitments will not change and our focus is on execution. And I think what we saw in the first quarter is a company that's making progress; we still have a long way to go; but continuing to focus on executing each and every day, both in our physical and digital channel; and that's not going to change over the next few years.

Michael Lasser

Brian, within the grocery and essentials category, can you give us a sense where you think your pricing gap is to the market today? And where do you think it needs to be overtime?

Brian Cornell

I think that we started work here in earnest in Q4 and continuing with healthy work in Q1. We actually show our industries are actually closer than the guest gives us credit for. And that's an issue for us, because we know that's a bigger message that we need to covey.

So we're continuing to sharpen our price and our value messaging at the same time and make sure that we move to more regional based pricing, localized pricing so we’re more relevant to the guest in the competitive set, which is not what we're doing during ’16 and we're rapidly iterated on in '17. So you see more of that activity and more of that benefit as we move through 2017.

Operator

Our next question comes from Kate McShane with Citi. Your line is open.

Kate McShane

With regards to moving to EDLP and value messaging, I just wondered how much that move weighed on margins in Q1 and where you're seeing more success in that move. And where you think you have more work to do? And then in that same context, I think you've noted before that there is some fits and starts with how you've communicated your value message. Can you explain how and what you did during Q1 to convey that better to your customer?

Cathy Smith

So I'm happy to start, Kate. Good morning. And then Mark can amplify as well. So on the impact that we saw coming through gross margin, as Mark shared and we've shared actually for a couple of quarters. Our biggest work has got to be around making sure that the value we're delivering is really clear. And it's going to take a while for our guests to give us a credit for that. And so that's the work that we're going to continuing to do. So while we're sharpening and making it more regionalized, you'll see that come through slightly. But the bigger effort is all of the work we're doing, and like the Target Run and Done campaign that we launched this last quarter and making sure that our guests recognize the value we are delivering.

Brian Cornell

I'd just add into that, Kate. Our assets, as we've discussed, are quite surgical. So we're doing this area-by-area, classification-by-classification as an involving transfer. And we've really begun those efforts through Q1 but more in the backend as we match to the Target Run and Done campaign. So what we're seeing here is that on the handle side, we've been, clearly we've had up to 28 different handles that we've been using to resonate value across all our classification. So rationalizing the voice and the nomenclature down is part of that. So that's why we'll come into Q2 with an evolving position and we'll assess its impact and its opportunity.

Operator

Our next question comes from Greg Melich with Evercore ISI. Your line is open.

Greg Melich

I had a couple of questions; one, Cathy, sort of a housekeeping. You mentioned there was a timing issue in SG&A. Could you quantify how much that helped SG&A or how much we should expect it to come-in in the second quarter?

Cathy Smith

As we said in our Q2 remarks and guidance, we expect couple of hundred million dollars of EBIT decrease. And we also said that the majority of that would be in SG&A, so it's pretty, I think it's pretty safe to assume that that would be how I quantify the shift from Q1 into Q2.

Greg Melich

And then a bigger picture question, you talked a lot about traffic. But I don't think we've test yet on the loyalty programs and the frequency you could drive from Red Card and Cart wheel. And it's been a lot of change in the market, whether it's Amazon Prime or Costco with their new Credit card or Walmart with free shipping thresholds lowering. How are you guys thinking about integrating those programs to really help drive traffic? And is there a time this year that we should expect to see that maybe enhance or roll out?

Brian Cornell

Greg, we'll talk more about that in the second half of the year. We're spending a lot of time right now with Rick Gomez, who's now our Chief Marketing Officer really stepping back and thinking about loyalty and importantly, as you said the integration of the Red Card into that loyalty program. And one of the other highlights from the first quarter is the continued penetration growth of our Red Card. So we recognized that the very important asset that we need to leverage going forward. And Rick and his team are working right now to think about the next phase of loyalty and how we continue to leverage the Red Card to build even stronger relationship with our guests. So you’re spot on and we'll talk about that much more in the second half of the year.

Greg Melich

And on sales, just a follow ups. It sounds like sales improved in March and April, but were still negative. I just want to make sure that's right?

Brian Cornell

Greg, we don't break out monthly sales. As we've said, we saw strengthening in the latter half of February, into March and April. But obviously, our comps were still down for the quarter. So we've had work to do. We're not satisfied with where we ended up. But we certainly feel good about the progress we made in the quarter; and importantly, the market share gains that we saw in very important signature categories. So we're focused on driving traffic. We are certainly committed to restoring positive comps throughout our system. But one of the other important metrics that we're going to be looking at every single quarter is how we're performing from a market share standpoint. And I feel very good about some of the market share gains that our team achieved in Q1. We're going to continue to focus on market share opportunities throughout the year.

Operator

Our final question comes from John Zolidis with Buckingham Research. Your line is open.

John Zolidis

Question on the performance of the smaller format stores, you mentioned that they had sales productivity roughly 2 times that of the larger more suburban base stores. Aside from the difference in either being an urban or suburban location. What do you attribute or what can you tell us about why the productivity of those boxes is so much better? And is there any learnings you can take from those small format stores to extend to the balance of the chain?

Brian Cornell

John, there is a lot of learnings that we're bringing forward from those small stores, not only as we expand into new markets but as we think about application to our traditional stores. I think the biggest learning is as we move into these new neighborhoods, consumers love Target and they love the brand. And the response we're seeing has been really outstanding. So we feel very good about our small format strategy as we move into new neighborhoods; we're getting better and better are curating and localizing assortment; understanding how to operate in various markets; and we're also encouraged to see the early top results as we lap some of the new small formats we opened up last year. So encouraging signs, and we're going to build off of that as we go forward.

So we feel good about the progress we made in Q1. But as a team, we're not doing high fives. We know we've got a lot of work to do. But I think it's important as we aim to recognize, as a Company, we have a very strong foundation. And if you look at our results in the first quarter, we generated $16 billion of revenue. Our operating income was almost $1.2 billion. We are able to invest $500 million of CapEx and still see a very strong return on invested capital of over 14%. And as we did that, we're able to reduce inventories by over 5%. So we know we've got a lot of additional work to do. But I think it's important to recognize; we're a fundamentally sound Company; we've had a very clear strategy in place; and now our focus over the balance of the next three years is week-to-week execution, both from a physical and digital standpoint.