Thanks John, and good morning, everyone. We are really pleased with the second quarter financial results. Comparable sales grew 6.5% in the quarter, representing Target's stronger quarterly comp performance since 2005. This increase was driven by traffic growth of more than 6% an unprecedented number and by far the strongest performance, since we began reporting this metric in 2008.

Total sales were up 7% from a year ago, reflecting 0.5 point of growth from our new and non-mature stores. Store comparable sales increased nearly 5%, and digital sales grew more than 40% in the second quarter as guests continued to respond to a growing menu of convenient fulfillment options, newness around our merchandising categories, freshly remodeled stores and a higher level of service across the chain.

On top of the strong digital sales trend, we've been seeing for many years, we saw a meaningful incremental lift from our one-day sale in July, which came in far ahead of expectations. With very strong traffic both in-store and online, we saw accelerating comp sales trends in all five of our core merchandising categories. While there are healthy increases across the board, comp growth in our Home category was amazingly strong, up nearly 10%. Hardlines also saw high-single digit comp growth driven by strength in both toys and electronics.

And with stronger than expected sales, our business delivered stronger than expected profitability. Our second quarter adjusted EPS of $1.47 was near to the high-end of the guidance range of $1.30 to $1.50. This represents about 20% growth compared with the year ago, despite the fact that our results continue to reflect significant investments in both capital and operating income to position Target for long-term success. These investments include our plan to perform wall-to-wall remodels of approximately 1,000 stores over a 3-year period. Our work to complete the transform, Target supply chain, placing our stores at the center of a modern network design to deliver an unmatched combination of convenient fulfillment options; opening new small format stores across the country allowing us to reach guests we couldn't serve with our larger formats; last year's investments to ensure we're priced right daily in support of the Pay Less side of our brand promise; our work to deliver a constant drum beat of new and exciting merchandize throughout our owned and exclusive brand portfolio; the rollout of new convenient digital capabilities that make it easier and more inspiring for guests to shop, save and use their REDcard, and most importantly investments in hours, wages and training for our team members. These investments enable our team to deliver higher levels of service and productivity and our guests are responding to the change. We embarked on this investment plan at the beginning of 2017 and our progress so far has been well ahead of our original expectations.

There is no doubt that like others, we're currently benefitting from a very strong consumer environment, perhaps the strongest I've seen in my career. But market share data demonstrates that our current results are benefitting from more than just the environment, as we're seeing broad market share gains across categories we sell. The question we continue to hear from many of you is whether we can separately measure the benefit of each of these investments we're making. And the honest answer is we can't evaluate each one of them in isolation. Instead, it's the collective benefit of all of these initiatives that is keeping Target more top of mind with guests, enticing them to visit our stores and our site more often.

Before I turn to our outlook for the rest of the year and beyond, let me comment briefly on the topic of tariffs. Like many of you, we've been carefully monitoring recent tariff announcements. And we are aware of the potential for the situation to further escalate. As we said many times, as a guest-focused retailer, we're concerned about tariffs because they would increase prices on everyday products for American families. In addition, a prolonged deterioration in global trade relationships could damage economic growth and vitality in the United States. Given these risks, we have been expressing our concerns to our leaders in Washington, both on our own and along with other retailers and trade association partners. However, our concern is centered on the impact of tariffs, on consumers and the economy, not our ability to manage our business in the face of these challenges.

As you know, when we’re faced with tariffs or any other external factors, there are multiple levers we can pull to remain price competitive and maintain profitability, and we are continually developing and implementing contingency plans as we learn more and things evolve. While we always account for risks like these when we plan for the future, today, we are also focused on the multiple opportunities we see in front of us.

In the first half of 2018, we delivered comparable sales growth of 4.8%, a result which is much stronger than the expectation at the beginning of the year. As a result, we have updated our comp guidance, and we are now planning for comp growth in the back half of the year in line with what we’ve seen in the front half. In addition, we have also updated our full year EPS expectations. Cathy will provide more details in a few minutes. These upgrades to our outlook reflect the current trends we’re seeing across our business, including a very strong start to back-to-school and back-to-college. In addition, we continue to focus on unique opportunities in key Toy and Baby categories, given the recent closure of Toys "R" Us and Babies "R" Us across the country. And of course, as the year progresses, we’ll continue to benefit from the broader rollout of new fulfillment capabilities like Drive-Up and Shipt, brand launches in multiple categories, the completion of additional remodels and the opening of more small-format stores.

As we look beyond 2018, we have increasing confidence that we can deliver very strong results in the years ahead, as we move into the next phase of our strategic plan and achieve scale across the full slate of our growth initiatives. When we move beyond testing to scaling, we'll see efficiencies and cost savings further strengthening our guest experience and overall position in the marketplace, and importantly by the end of 2020, we'll have a newly refreshed base of stores, reflecting our plan to complete more than 1,100 remodels in a 4-year period through 2020.

So now, before I turn the call over to John, I want to pause and thank the entire Target team for everything they are doing to deliver outstanding operational and financial performance.

In pursuit of our plans, we're asking our team to deliver more change, faster than at any time ever before. The team is responding enthusiastically to the challenge and it is inspiring to see our vision coming to life. But I want to quickly add, while our progress feels great, we have no intention of slowing down. We'll continue to seize the opportunity ahead of us, and offer our guests more inspiration and convenience than ever before.

With that, I'll turn the call over to John, who'll provide an update on our rollout of new fulfillment options, investments to new and existing stores, and changes in our stores to make the shopping experience easier for our guests. John?

John Mulligan

Thanks, Brian, and good morning everybody. As I have discussed with many of you, the operations team faces a fundamental challenge in delivering on our strategic initiatives as we work to make changes to virtually every facet of our operations, modernizing our supply chain, delivering new fulfillment options and increasing efficiency in our stores. We need to simultaneously focus on maintaining everyday reliability in support of a $75 billion business.

In the phase of this challenge, I'm really proud of how our team is performing on both priorities, particularly in light of the rapid acceleration in sales we've seen in recent quarters.

As you know, our strategic plan includes significant investments in the physical infrastructure of our stores. This is because our stores will continue to be the key fulfillment note for our guests whether that's a traditional store trip, a drive-up order, an in-store pickup order, a trip by a ship shopper or a traditional e-commerce purchase ship from a local Target store.

Our goal for the year to deliver well over 300 remodels and we are on track to deliver that plan. We completed remodels of 113 stores in the second quarter on top of the 56 we completed in the first quarter and many more are underway. In fact, in July, we had 258 locations undergoing a remodel during at least the portion of the month, the highest at any kind in our history. While our remodel project creates an optimal platform for all of our fulfillment initiatives, it also provides our guests with the more inspiring environment that's easier to shop. And our guests continue to respond by shopping more often, specifically consistent with our plan. We continue to see traffic driven incremental sales lift of 2% to 4% in our remodel stores following completion of the remodel. And while the data is limited, we are seeing some early indications that remodel stores continue to help comp other stores beyond the first year after the remodel.

We also continue to see encouraging performance from our new small format stores. We opened six of these new locations in the second quarter, on top of the six we opened earlier in the year. These locations delivered high sales productivity along with gross margin rates above the company average. And we continue to see strong growth as these stores mature. At the end of the quarter, we were operating 26 mature small format stores, and on average this group saw high single-digit comp growth during the quarter.

Beyond the physical experience in our stores, we continue to invest in hours, training and wages for our store team allowing them to deliver a higher level of service and a better overall experience for our guests. While this modernization is focused on the guest experience, it is fueled by efficiency. In the second and third quarters this year, we investing in team member training across every one of our stores, focusing on how our team members can be more helpful to our guests as they shop.

We've rolled out new tools and technology that allow our team to find and order items on behalf of our guests and process the sale from anywhere in the sales floor. We're hiring differently, focusing on the passion and expertise of the team members who can deliver more information in service in key categories like Beauty, Electronics, Apparel and Food. And in Food and Beverage, we are changing how the team accomplishes everyday task allowing more opportunities for guest to interact with experts on the sales floor, while also standardizing operations to ensure we have fresh and full presentations, a focus on food safety and a strong and efficient foundation for how we operate. While these investments are already helping us to deliver stronger traffic in sales, we are also focused on driving efficiencies that can help us offset the cost. As a result, we have completely redesigned when and how our team sort in stock product reducing steps and creating more opportunity for guest interaction during key business hours.

In addition, we have implemented changes to our backroom organizations for store teams to more efficiently ensure our guests have what they need on the sales floor, particularly in apparel. And of course, our work on the upstream supply chain is focused on changes that will dramatically reduce store workload associated with unloading and restocking over the next two years.

Beyond the store investments, I want to give you an update on our rollout of new fulfillment options across the country. The team has been moving at an amazing pace and our guests continue to tell us that they love the new options.

I'll start with Shipt, our same day personal shopping service, which is now operating in more than 160 markets and serving more than 1,100 Target stores. Over the last year, Shipt's membership base of more than tripled while orders, revenue and GMB are two to three times higher. While some of this growth is being driven by Shipt's entry into new markets, we're seeing orders in GMB in comparable markets meaning markets in which Shipt was already operating a year ago that are up nearly 100% year-over-year.

We're also very pleased that new partners continue to sign into the Shipt platform attracted by the reliability and level of service that Shipt can provide. Year-to-date Shipt team has added to their marketplace a total of 19 new retail partners, who operate under 24 unique banners across the country. This is more than double the number of new partners that Shipt added to its marketplace in all of 2017.

We're also pleased with the rollout of our new service in dense urban market stores, which we call delivery from store. With this service, guests pay a small fee at checkout and choose a time window later at same day, when their shopping basket will be delivered to their front door. This service is now available in 58 stores across five markets and guests continue to love it. The average basket size for this service is more than $200, the highest of any service we provide.

And last, but certainly not least, is our new Drive-Up service. We started the year offering Drive-Up in 50 stores, and at the end of the second quarter, it expanded to more than 800 locations around the country. Our stores have done an excellent job training their teams to deliver this new service and guest satisfaction is off the charts.

Our most recent Net Promoter Score for Drive-Up is 88, a crazy high number, the highest of any service we provide. We expect to have this service rolled out to nearly 1,000 stores by the holiday season, and we will continue the rapid expansion next year.

On top of these new services, we continue to see rapid growth and adoption of other digital fulfillment services, including restock, in-store pickup and, of course, shipping to our guest front doors. And you have seen that growth in our numbers for a long time now, as we've seen year-over-year growth in our digital sales in the 20% to 30% range for several years. However this quarter we saw a step-up in the pace of growth, and a lot of that acceleration was driven by a one-day sale in July. Among the many reasons to host a digital sale in July, it's important for our team, because it gives them the opportunity to stress test our systems and processes in advance of the peak holiday season.

And this year, the July sale presented a really robust test as orders in sales far exceeded our expectations. The sale created by far the biggest digital sales day we have ever experienced outside of a holiday season, driving volume nearly three times higher than our forecast. While this was great news, of course, our store and supply chain teams had to react and recover quickly to fulfill all the unplanned demand and keep operations running smoothly. While that challenge presented some long days for our team, I am really proud of how they responded adding to my confidence and our ability to accommodate peak demand in the upcoming holiday season.

In a way, the story of the one-day sale is similar to the story of the second quarter as we saw stronger than expected volume throughout the quarter. This has caused some in-stock challenges in certain items and categories, and the team is working quickly to recover and plan for higher volumes throughout the rest of the year. As a result, our inventory position at the end of the second quarter was up about 11% from a year ago.

Of course, a meaningful portion of this growth is being driven by our current and planned level of sales, which are growing faster than we've seen in many years. In addition, the team has brought an extra inventory to recover and protect in-stocks. And we are seeing higher levels of in-transit inventory, as our operations teams develop plans to accommodate the fourth quarter surge. And of course, our merchant teams have brought an extra volume to address the unique market share opportunities we're facing in Toys and Baby. Bottom-line, we continue to feel very good about our overall inventory position given our plans for the rest of the year.

Before I turn it over to Mark, I want to reiterate what Brian said earlier. Our current traffic and sales growths are not being driven by any single thing we're doing. They're the result of everything we're doing for our guests. And I want to thank everyone on the team for making it happen where there is a lot of change that's visible from the outside, there is even more change happening internally. That amount of change presents a challenge. So it's incredibly rewarding when we see our guest responding such a positive way.

With that, I'll turn the call over to Mark, who'll provide more detail on our second quarter performance and our upcoming plans in merchandising. Mark?

Mark Tritton

Thanks, John. As Brian and John have mentioned, the momentum we're seeing across our business is amazing and we can't point to any one single driver. Instead, the common denominator is our guest, who is speaking of us and choosing to shop with us more often. As we benefit from this momentum, our goal is to maintain this focus on our guests and push ourselves to do more, even more quickly and service to them.

As we've said before at Target, we're at our best when we maintain a proper balance in our business with a focus on delivering and not or. After all, we don't ask our guest to expect more or pay less, we work to consistently deliver on both sides of that brave promise. But it doesn't stop there. We feature a curated assortment that satisfies wants and needs of these basic items and must-have style and highlights national brands and owned brands.

We invest to ensure we're price right daily and offering compelling deals, design our assortment to support both stock up and filling trips and we feature all of that in-store and online. Guest serve base give us confidence that we're achieving a proper balance in the current environment. For example, in the second quarter, our guest scores for convenience in everyday pricing increased, and our differentiation score increased as well. This is a testament of the efforts of our entire team over the last 18 months, and their focus on delivering the right combination of everyday prices and compelling promotions with the right assortment of innovative national brands alongside exciting new owned and exclusive brands. We're also seeing good balance in our category performance. Comp growth in all five of our core categories accelerated in the second quarter, and all of them grew faster than our first quarter comp of 3%. Among the three months, May benefited from the recovery of temperature-sensitive sale, and July benefited from the back-to-school, back-to-college and some calendar shift, but comps in all three months was stronger than our first quarter trend.

Also of note, we saw some of our strongest market share gains around key life moments like Mother's Day, Father's Day, Memorial Day and, of course, the July 4. But we also saw sustained results outside of those holidays, driven by the strength of our essentials in Food and Beverage categories, which saw share gains in every week of the quarter. We saw unusually strong second quarter growth across each of our style categories, Apparel, Beauty and Home. However Home was the standout with the comp of nearly

10% growth, driven by even faster growth in décor and kitchen, which are benefitting from our new owned brands.

Within Home, we also saw strong sales in seasonal categories, reflecting encouraging early results in the back-to-school and back-to-college seasons. In Apparel, we saw high-teens growth in Baby, reflecting the benefit of the unique opportunity we're facing to gain market share in Baby and Toys, given the recent closures of Toys 'R' Us and Babies 'R' Us across the country.

Given the strong affinity between families to young children and our brand, but Toys and Babies are category for us and we expect to see traffic and share gains in both of them for the rest of the year and beyond. Outside of the style categories, our Hardlines, Food and Beverage and Essentials categories also delivered standout growth. Hardlines was particularly strong, driven by double-digit comps in both Toys and Electronics. Now within Electronics, we saw really strong growth in video games as well as accessories, where we successfully launched our new own brand Heyday, during the quarter.

In Essentials, second quarter growth was strongest in Baby and in Pets, both of which saw double-digit comp growth. In Food and Beverage, we delivered our sixth straight quarter of accelerating comps. Growth continues to be led by adult beverage in produce areas in which we have made important investments over the last couple of years.

To continue supporting our frequency businesses, our successful Target Run and Done marketing campaign has begun featuring convenient fulfillment services like in-store pickup and Drive-Up, making sure our guests understand all the ways they can get their Target run done. As we look at broad category strength, what's especially encouraging is that it isn't being driven by higher promotions. In fact, sales of our everyday price are uphold in $2 billion so far this year, reflecting the continued benefit of our team's efforts to establish a better balance between meaningful promotions in everyday pricing.

Even for the promotional events like our July one-day sale, we’re thinking differently about how we can provide value. More than half of our digital sales on that day were in a highly differentiated and high-margin Home category. And as John told you, we blew away our forecast for that event.

As we look ahead, we have a lot more in store, for the third quarter and beyond. On top of the new owned and exclusive brands, we launched in 2017, and earlier this year, which continue to perform really well. We launched four new own brands in the second quarter that will drive our results going forward. Three of these new brands were designed to invite young millennials in the emerging Gen Z guests to experience Target in ways that are authentic to them.

Wild Fable is our newest apparel and accessories brand for young women. It's driven by current trends and focused on enabling just to create their own style, for their own many life moments. For young men, we just launched Original Use, a street meets vintage modern brand focused on enabling guests to explore fashion, culture and individuality. Both Wild Fable and Original Use feature a wide range of sizes reflecting our commitment to inclusive sizing.

As I mentioned earlier, we launched our exclusive Heyday brand of electronic accessories in June. This brand is designed to appeal to style conscious guests an incredible value without sacrificing quality with trendy, fun and quality tech at very affordable prices. Also, in June, we've launched our newest home brand, made by design consisting more than 750 items in kitchen storage, bedding, bath and even furniture with most items below $30. This brand is the ultimate expression of Target DNA, a commitment to the democratization of design, offering high quality style at affordable prices. We design each product to intuitively go beyond the expected delivering smart solutions that make everyday tasks easier. For example, the cookware incorporates pour spouts on the rims and built in strainers in the lids, glasses are stackable and towels include hang hooks that keeps them of the floor and items were designed to forgive minor mistakes like silicon and nylon tools that can handle heat up to 450 degrees in case you're accidentally leave your spatula on a hot fry pan.

And finally, in addition to our new own brand, we are really pleased with the second quarter performance of our unique collaboration with Disney to celebrate Mickey's 90th anniversary. This collaboration features more than 350 exclusive items, spanning multiple categories including toys, bedding, beach gear, beauty, even pets, all celebrating Mickey and the pure magic of summer, bringing joy you can only find at Target. Of course, beyond new items and brands already launched, we have more newness plans for the third quarter and look forward to revealing more soon.

But our differentiation doesn't just happen with new brands. We also delivered newness through our existing brand portfolio. Look at Cat and Jack, we launched this kids brand more than two years ago and sales and market share continue to grow. That's because we continuing to invest and deliver newness and great designs through Cat and Jack every day, every season. Whether we're talking about our new brand or an existing brand, it's our focus on the guest, innovation and great design at a great price that are keys for Target to continue to win through differentiation. And that is not going to slow down.

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

Cathy Smith

Thanks Mark. Our second quarter financial performance exceeded our expectations on both the top-line and the bottom line reflecting the benefit of our strategic initiatives in a very strong consumer environment. As Brian mentioned, our second quarter comp sales increase of 6.5%, is the strongest we've seen at Target in 13 years. This growth reflected a 4.9% increase in our store comparable sales combined with 41% growth in digital. These are both very healthy numbers in isolation, and they're even more powerful together.

Traffic growth of 6.4% accounted for nearly all of our comparable sales growth in the second quarter. In addition, for the first time in nearly two years, our comp sales grew faster than comp traffic as we saw a small, 0.1% increase in basket in the quarter. In our last quarterly call, when describing our first quarter traffic increase of 3.7%, we described it as the strongest result we had ever reported since we began reporting this metric in 2008. Obviously then, this quarter's traffic growth of more than 6% is well beyond anything we've reported before, and we are really encouraged to see continued momentum in such a key metric.

Our second quarter gross margin rate of 30.3% was down about 10 basis points from last year and slightly better than our guidance. Among the drivers, we continue to see meaningful pressure from fulfillment costs as guests engagement with our digital channel continues to grow, and we've rapidly roll out new convenient fulfillment options across the country. However, in the second quarter, this headwind was almost completely offset by the benefit of our merchandising initiatives, including ongoing cost saving efforts and the benefit of our work on pricing and promotions. The mix of our sales was a slight headwind in the second quarter as strong sales in our high-margin Home and Apparel categories were balanced by really strong trends in lower margin categories, including Toys, Baby and Electronics.

Our second quarter SG&A expense rate was about 10 basis points higher than last year. Across the broad categories of expense, there were no large rate variances year-over-year, as cost pressures were offset within categories. For example, second quarter compensation costs reflected pressure from higher wage rates, but those costs were offset by lower incentive expense compared with the year ago.

Our second quarter depreciation and amortization expense rate was slightly lower than a year ago. This was better than our expectations, driven by stronger than expected sales and a smaller than expected increase in DNA expense associated with our remodel program. Altogether, our operating income margin rate was about 20 basis points lower than last year, somewhat better than our guidance for a 40-basis-point decline. Notably operating income dollars were 3.6% higher than last year as the increase in total revenue more than offset a slightly lower rate.

Below the operating income line, second quarter interest expense was about 12% lower than a year ago, as we continue to benefit from last year's debt, retirement and refinancing activity. Our second quarter effective tax rate was 21.8%, down nearly 10 percentage points from last year, reflecting the benefit of Federal Tax Reform Legislation. Bottom line, we've reported second quarter GAAP EPS from continuing operations of $1.49, up 22.7% from last year and adjusted EPS of $1.47, 19.8% higher than a year ago.

Stepping back to look at the first two quarters of 2018 in total, Target's comparable sales have increased 4.8% from last year, and our GAAP and adjusted EPS are both up about 15%. This year-to-date performance reflects the traffic and sales benefit of our strategic initiatives, continued significant investments in operating income and the offsetting benefit from Federal Tax Reform.

Turning briefly to the balance sheet, we ended the second quarter with about $9.1 billion of inventory. This represents an 11% increase from last year, as John covered earlier. Also notable on the balance sheet is the growth in payables, which were 20% higher than last year, at about $9.1 billion as well. Payables leverage has grown substantially in the last couple of years, as the team has focused on improving that metric as a source of funding for the meaningful investments we're making.

Even accounting for this investment in our inventory, our business continues to generate very healthy cash flow. Specifically through the first half of 2018, our continuing operations have generated more than $2.7 billion in cash, providing ample capacity to make meaningful investments in our business, while returning capital to shareholders.

In the second quarter, we made capital investments of just over $1 billion, and we remain on track for CapEx of about $3.5 billion for the year. These investments are concentrated primarily in-store projects, including remodels, other presentation enhancements and new urban and college locations around the country.

Beyond those capital investments, in the second quarter, we returned just over $3.25 billion to our shareholders in the form of dividends and share repurchases. And in June, our Board of Directors approved a 3.2% increase in our quarterly dividend from $0.62 to $0.64. With this increase, 2018 is on track to mark our 47th consecutive year of annual increases.

Finally, I always like to close my quarterly commentary with a discussion of Target's after-tax ROIC. This is a key metric we monitor closely as it incorporates both our operating performance and the quality of our capital deployment decisions. For the trailing 12 months ending in the second quarter, we recorded after-tax ROIC of 16%, including the discreet benefits of Federal Tax Reform that we recorded in last year's fourth quarter. However, even after we exclude those discreet benefits, our second quarter ROIC of 14.2%, was up about 70 basis points from a year ago.

It's encouraging that we're returning to growth in this metric, as we're seeing the initial impact of last year's strategic investments in capital and operating income, which were designed to best position Target for success overtime.

So now, let's turn to our guidance for the third quarter and the full year. As we look at the underlying drivers of our traffic and sales, there are more positive indicators than we've seen for many years. These indicators are reinforced by our comparable traffic and sales results, which have been gaining momentum over the last year and half. As a result, today, we updated our guidance for both the third quarter and the back half of the year. And we are now planning for comparable sales growth in line with what we delivered in the first half of the year.

As we move down the P&L to the operating income line, we continue to plan cautiously and focused on the unique opportunity we are facing to capture additional traffic and market share in key categories like Toys and Baby. In light of that opportunity, we have updated our expectation for the gross margin mix of our sales for the remainder of the year, reflecting higher sales expectations in these lower margin categories. With this updated mix expectations, we are now planning for a gross margin rate decline of 30 to 40 basis points in the third quarter. Combining that expectation with our forecast for a slight increase in our SG&A expense rate and a small amount of rate favorability on the D&A expense lines, we are planning for a 20 to 30 basis points decline in our operating income margin rate in the third quarter. These expectations translate to an expected range for both GAAP and adjusted EPS of $1 to $1.20 in the third quarter.

For the full year, we are now planning for an operating income margin rate decline of 30 to 40 basis points on a higher base of expected sales. These expectations translate to a full year outlook for adjusted EPS of $5.30 to $5.50 compared with our prior range of $5.15 to $5.45. We believe this expectation achieves the appropriate balance between shorter-term and longer-term priorities. Mainly it reflects improved bottom line expectations resulting from an increase in expected sales, while allowing the flexibility for our business teams to invest appropriately in the traffic and the market share opportunities we're currently facing in a number of key categories.

As we enter next year, we will be well positioned to benefit from these share gains. In addition, we'll benefit from achieving much greater scale across all of the capabilities we've been testing and launching across the country. With this scale, we will realize efficiencies and cost savings, which will position us to deliver profitable growth in 2019 and beyond.

Before I turn the call back over to Brian, I want to thank all of you who are listening for staying with us on the journey we began last year. At the beginning of 2017, we said that to position Target for the long-term success, we needed to make some bold investments in both capital and operating margin to accelerate our transformation and deliver more relevant experiences brands, and fulfillment options to our guests faster. The momentum of our results since that announcement, 18 months ago, makes us more and more confident that we are making the right investments. And that affirmation is coming most strongly from our guests. We're seeing unprecedented traffic and the best comp sales trends in more than a decade.

As Brian said earlier, there is no doubt that the environment is an important factor in our current success as consumer trends are the strongest they've been in some time. But market share data continues to confirm that we are growing faster than the market in the broad set of categories we sell. While this is great to see, we are just entering the next phase of our transformation, and we have much more to accomplish in the months and years ahead.

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

Brian Cornell

Thanks, Cathy. Before we move to your questions, I want to add to what Cathy was just saying. 18 months ago, when we were developing our plan to make additional investments in our business, we could move faster, we considered all of our stakeholders, as we evaluated our options. Obviously, we started with our guests, since they are the center of everything we do, but we also decided to increase our investments in our Target team, adding hours, training and wages, to allow them to better serve our guests. We thought about our merchandise vendors and how we can change the way we work together to deliver quality, newness, differentiation and value to our guests.

We looked at our community giving and corporate responsibility efforts focusing on the issues most important to our guests, and where Target can have the most impact. And we obviously considered you, our shareholders, because your capital supports all of the investments we make.

So, as I mentioned at our financial community meeting last spring, I am very grateful for the personal comments I received from many of you, in support of the commitments we've made to our business, our team, our community, and creating long-term shareholder value. I hope you're as excited as we are to begin seeing the benefit of the long-term decisions we made last year, which are already driving a higher level of engagement between our guests and our brand.

With that, we'll move to your questions.

Question-and-Answer Session

Operator

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

Seth Sigman

My question is about the guidance. So the guidance seems to imply, I guess, slightly better operating profit growth in the second half of the year. In the second quarter, it was up, and it was up for the first time in a very long time, which is nice to see, but it was down for the full first half on similar comps to what you're assuming for the second half. So could you just remind us of some of the drivers? And Cathy, we got the margin commentary, but could you just help us a little bit more with some of the levers as we move into the second half of the year, some of the cost savings and other opportunities that will help support that operating profit growth. Thank you.

Cathy Smith

As we did say, we're obviously, very, very pleased with the quarter, so thank you for the comment. And as we think about updating our guidance for the remainder of the year, we expect consistent sales. So first on the top line, we see the back half and we've got plans for consistent sales growth in that same range, which is, obviously, very strong consistent with the traffic and sales we've been seeing. And then on profitability, we see a great opportunity to continue to take share and go after some categories, specifically Toys and Baby. So we baked that in into the back half of the year. So all of that said, we'll continue investing in both the fulfillment aspects, which are coming through in gross margin and then the category mix. And then on the SG&A line, we’ll continue to invest in our stores. All of that said, we expect the back half of the year for a slight deterioration in Op income margin rates.

Brian Cornell

Seth, we feel like we're very well positioned for the back half of the year, as I've mentioned with my prepared comments. We're seeing a very strong start to back-to-school and back-to-college. We continue to see very strong traffic trends, and we expect to monetize that in the back half of the year. So you should expect continued strong performance from Target throughout 2018, but it also sets us up for a very strong performance as we go into 2019 and beyond. So I think we're well positioned to continue to build off of the current momentum. And you should expect us to begin to grow operating income from a dollar standpoint.

Cathy Smith

And as you've mentioned, op income dollars did grow in the second quarter.

Seth Sigman

That's great color. If I could just follow-up, Brian, on your point, I mean clearly there is broad based strength here, and you've highlighted that you don't think it's any single initiative, but can you maybe speak to the biggest surprises relative to your expectations, because obviously the quarter turned out better than expected as well as the outlook. So just any more color on relative to your expectations what is outperforming? Thank you.

Brian Cornell

So I'll start with each one of our key initiatives is ahead of the schedule that we have set 18 months ago. We continue to see really positive responses from our store remodels. And John mentioned that in the month of July alone, we had over 250 stores under construction. In each and every market, we're seeing really strong guest response to those reimaged stores. Our new small formats continue to impress and are driving productivity from a sales standpoint that are beyond our expectations. The reaction that the guests have had to our new brands has been spectacular in Home, in Apparel, and now in Electronics. And each one of the fulfillment capabilities continues to deliver a great response from the guests. John talked about the Net Promoter Scores we're getting for a service like Drive-Up that will bring to scale for the holiday season. The reaction we're getting in each and every market to Shipt and the quality of Shipt shoppers that are servicing their members. In urban markets like New York or Chicago, San Francisco, Boston, DC, the ability to shop our urban small formats and then hours later have someone deliver that package to your doorstep for a $7 charge, very well received. And the investments that we've made in our store teams and putting more expertise in departments like Beauty and Apparel, in Food and Beverage, in technology, the reaction we're getting from our guests exceeded our expectations. So all of our key initiatives as they're working together as one are ahead of the schedule that we would have set 18 months ago. And now as we move into the holiday season, we'll have more of those at scale, and as we move into '19, we'll be further ahead of the original plan that we'd established back in February 2017. So each one of the key elements is working ahead of the schedule that we have set back in February 2017, and we expect that to continue to accelerate. And as you heard me say numerous times, the traffic number to me is the most important measure that our strategy is connecting with the consumer both in our stores and online. And we continue to see very strong traffic as we go into the third quarter.

Operator

Thank you. Our next question comes from Mike Lasser with UBS. You may go ahead.

Mike Lasser

You mentioned that the remodels were through that activity down in July. Was there actually a drag from the traffic, and same store sales results would have been better had it not been for some of the remodeling activity?

Brian Cornell

Yes. Mike, it's certainly disruptive when we're remodeling stores. And now we're doing it at scale. So we're very focused, John and his team on shortening the construction cycle, less disruption, rapid recovery. But you can only imagine with over 250 stores under construction during an important month like July, there was significant disruption in those store sales. We're going to see the recovery as we go into the third quarter and we certainly expect to have even better response in those stores in Q4. So when we remodel, there is significant disruption in sales, but we're seeing that return very quickly once we complete the remodel.

Mike Lasser

And is that also the case, I mean there was a shift with your same-store sales and it seems like based on your guidance, the shift has been really a meaningful story you're in what, either you saw in the third -- in the second quarter or what you expect for the next couple? And then I have one last follow up.

Brian Cornell

Yes, Mike, we're very pleased with the rollout. At this point, it's a very, very small impact to our overall sales. So we certainly expect over the next few years that Shipt will have a more meaningful impact on our overall performance. But at this point it's still in a very nascent stage.

Mike Lasser

I'm sorry, that was my fault. I meant like a calendar shift rather than …

Brian Cornell

No.

Mike Lasser

I'm sorry, my fault. I should've spoke clearly.

Brian Cornell

We've seen no major impact to the calendar shift throughout the season.

Mike Lasser

Okay. And then the last question, the follow-up is, so it sounds like the gross margin's going to be impacted by the mix, which is a prudent strategy and totally reasonable for the back half. Is there also some effect from fulfillment costs as e-commerce becomes a bigger portion of the mix and this act as a continuous drag beyond just the next couple of quarters? Thanks.

Brian Cornell

We're certainly going to face some headwinds from the rapid growth that we've seen online, and our digital performance up 41% on comp of 32% last year. But I think, Mark and our entire team has done a sensational job of managing gross margin rate. You look at the kind of growth we drove in the second quarter up 6.5%, you look at digital growing by 41%. And we were able to basically maintain gross margin rates equal to last year. I mean the erosion was 10 basis points.

So with that kind of explosive growth, we're managing mixed very effectively. And it's weird and again you've heard us talk about this before, the continued performance of our own brand plays a very prominent role in allowing us to manage our mix, to have a category like Home grow at almost 10%, driven by some great new brand launches, led by made by design during the quarter. That's how we're managing to mitigate some of the gross margin rates deterioration that others are experiencing right now.

So I feel really good about the efforts of the team and our ability to continue to drive store growth at almost 5%, build our online business at a rate of 41%, but use our mixed management and our own brands to deliver very strong gross margin rate performance in the quarter.

Mike Lasser

Best of luck for the second half.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Oliver Chen with Cowen. You may go ahead.

Oliver Chen

My question is about pricing and promotion. What are your thoughts on managing that in the context of what you've been doing in the consumer environment? You've done a really good job with that gross margin rate. And shifts about value and how you continue to communicate that. Also, we were curious about the loyalty program. You have a very loyal customer, but what's ahead in terms of what you're thinking there just to capture data and continue to engage …

Brian Cornell

Oliver, why I don't start with loyalty, and then let Mark talk about our continued efforts to support our price rate daily positioning. The loyalty program is off to a very solid start in the Dallas market. We're watching that carefully. John Mulligan, are actually going to be heading down there this week to assess the program and our performance in the market still, in a very early stage. But as we think about 2019 and beyond, we've certainly expect our Target loyalty program, Target Red, to play a very important role in building even greater engagement and loyalty with our guests, so lot more to come as we get into 2019 and think about loyalty. But Mark, why don't you talk about our efforts on the pricing, and promo front and our continued support of being priced right daily.

Mark Tritton

I think that the work we did with priced right daily beginning in 2017 and our opening price point stands, which really spans how we're pricing every day both in national brand and owned brand, has been really key to part of the traffic generation, and seeing consistent flow of whether it's in stock-up or more importantly in fill-in trips that are changing our frequency business, but also across the board, make it very easy for the guest to shop in-store and online with great transparency and simplicity of pricing. So we've been able to exercise great pricing, communicate simply to the guests. And we're getting credit for that. And the data that we're seeing share in each of the categories is really reinforcing that.

Brian Cornell

Oliver, I think one of the reasons we feel confident in our second half outlook is because we're seeing such a great response from our guest to the investments we've made in pricing to make sure that we're priced right daily on those key food and beverage and household essential items. Those are driving footsteps to our stores, visits to our site, and they've been a key driver behind the rapid acceleration traffic.

Oliver Chen

Our last question is about the supply chain. You made a lot of -- really encouraging progress in supply chain. What are your thoughts about the state of speed and stock levels? And we saw a lot of the technology and thoughts you have ahead at your Investor Day, at Target Lab. What are you seeing in terms of how you'll manage the bricks and clicks story, and also how you'll manage for the smaller pack sizes? So love an update there. Thank you.

John Mulligan

Yes, Oliver, great question. I think, I've talked about this little bit in my remarks. The challenge for us is balancing, changing the business where we operate the business. And as you said, we showed you a lot of what we're doing to change the business. We'll start to scale-in a lot of that work in 2019. And that has the opportunity to significantly move our capabilities forward as we begin to scale that work. I think right now, we've said as the sales accelerated, particularly in Q2, Q1 to Q2, there are some areas where we've been spotting on in-stocks and we're not happy with that. And you see the response in our inventory, we've -- we're flowing goods in a little bit earlier for Q4, so that we can flow them to the stores appropriately. We've taken positions and things like A&A basics, things like denim, chinos, where last year, frankly the new brands came out, and we were almost immediately out of stock. We've made investments there. And then we're working hard on food and beverage. And as Mark said, we're gaining share for six quarters in a row. So we're learning to how to operate that business both differently in the store and in the supply chain. So we feel good about the progress we've made, but we are not satisfied with our current in-stock position. There is more work to do there.

Brian Cornell

And Oliver, I'll just build on that for you and others on the call. Well, this was a really strong quarter for the company. And when we think about comps at 6.5%, the strong comps in store, the acceleration in digital there is a lot to be proud of. But we know we've done a lot of work to do. And we've got to make sure that we're not meeting the demand that's taking place within our system. So John is very focused on that to make sure that we improve our in-stock position, but we've seen obviously a step function change in demand in our stores and online, accelerated growth. We're chasing some of that growth right now and we’ve got to continue to make sure that we're doing a better job of replenishing our system as we go into the back half of the year, and particularly as we get ready for continued strong growth in 2019.

Operator

Thank you. The next question comes from Chris Horvers with JP Morgan. You may go ahead.

Chris Horvers

Why don’t you -- you focused a lot on scaling in terms of 2019's different initiatives, but also in terms of the investment base. At the Analyst day, earlier this year, you called out 2018 as an investment year and you're reiterating your view of profitable growth in 2019 and beyond. Can you frame that how you think of that in terms of the margin rates in the business, including gross margin and operating income rate? Could we see flat grosses in '19, and up OI rate? Or you're thinking about profitable growth in terms of a flow through on a flat OI rate?

Brian Cornell

Chris, this won’t surprise you. We’re not going to give 2019 guidance today.

Chris Horvers

I am trying.

Brian Cornell

I know you are, and you’re trying hard. But I would refer you back to Cathy's comments earlier. When we look at our second quarter progress, really strong gross margin rate for a company that grew at our level. And for the first time in a while, operating income is growing from a dollar standpoint. So now we're seeing some improvement in our performance. We expect that to continue over time, but you'll have to stick with us for another day when we're ready to give 2019 guidance.

Chris Horvers

Understood. And then in terms of the e-commerce growth, you call that a big lift from the one-day sale, but at the same time you're scaling a lot of fulfillment options into the back half. So do you think you can maintain sort of that 40% online sales growth into the back half and how much of that contributes to the updated comp outlook versus say, share in Baby and Toys in these key seasons coming up?

Brian Cornell

Chris, I'll let John to build on this. But we expect very strong digital growth in the back half. Obviously we're guiding to comp sales that are going to be very consistent with our first half performance. You're going to continue to see us scale up, Drive-Up and Shipt, same day delivery in urban markets. So that’s going to play a very meaningful role. But you should expect our stores to be a very important driver to our growth in the back half of the year, and complemented by continued maturity in our fulfillment capabilities.

Cathy Smith

I'll just add real quickly, Chris. Stores did almost five comps by themselves, and obviously our stores are fulfilling much of that 41% digital growth. And so we're well over our two thirds of that digital growth is being fulfilled out of our store. And so we're blurring those lines every single day making sure we have a great experience to our guests and letting them choose to shop how they want to engage with Target. And so we're going to start talking less and less at some point about an actual digital comp because it is truly our entire business fueled by those stores.

Operator

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

Matthew McClintock

Brian, I was wondering if I could ask a macro question. So the broader retail industry has truly enjoyed a resurgence across the board this quarter. Target seems to standout because of traffic, as you've highlighted. But I was wondering if I get your thoughts on what's driving this? Why does the consumer -- the American consumer all of a sudden just wake up and start going to retailers again? And then, thinking forward, how should we think about Target's strength this quarter and the traffic trend this quarter, the strength in everything in all throughout the year when we get to 2019, and you're up against that comparison in 2Q. Because I just want to say in 2Q of next year, there is going to be a lot of skepticism that you can comp the comp at that point in time? So just your thoughts.

Brian Cornell

So let me start with the macro environment. And we've talked about this a lot over the last few years, and there has been a lot of questions about the role of stores would play. And was everything going to shift online. And I think the one voice that was missing from that conversation was the voice of the consumer. And consumers continue to vote with their footsteps. And as we sit here today and the numbers tend to vary from week-to-week, but on any given day, 90% of retail sales were done in physical stores. And I think what you're seeing right now from a macro basis, is well-run retailers with strong balance sheets that generate cash that they can invest back into their business are winning right now. And there are, obviously, others right now that can't afford to invest in their store experience or build capabilities or drive differentiation. And they're giving us share. So there are clearly winners and losers. We certainly think we’re migrating to the winners' column. And we're driving not only traffic, but as Mark and Cathy and John have talked about, we're taking market share in all of our major merchandising categories. And the investments we're making to make sure the target is a long-term winner are being rewarded right now by the consumer and our guest. So we've got to continue to make sure we focused on executing our strategies, we go into '19 continue to take advantage of the market share opportunities that are out there. And I'll go back to our February 2017 investor conference. And one of the things we've talked about in our overall management thesis if they're going to be billions of dollars of retail market share up progress, and we're going to position ourselves to take more than fair share of that. We're seeing it happen. As companies like Toys "R" Us and Babies "R" Us exit the market, as others close stores, we're picking up market share in those important categories in those key geographic attachments. And we'll expect to continue to do that in '19 and beyond. And as what gives us confidence that we're going to be able to last these strong numbers in 2018 with continued strength in '19 and beyond.

Matthew McClintock

Perfect. Thank you very much Brian.

Brian Cornell

Thank you. Operator, I think we have time for one last question.

Operator

Thank you. Our last question comes from Joe Feldman with Telsey Advisory Group. You may go ahead.

Joe Feldman

Why don't go back to something, I think, John was talking about with the labor and some of the changes maybe in the way you're hiring people and kind of the way you're allocating labor in the store and some of the transformation in the backroom. Can you just give a little more detail on that and speak for that issue?

John Mulligan

Sure, Joe. I think internally, you probably heard us talk about the store modernization, and it's really Ken and the store team have done a great job just stepping back and saying what is that we're trying to accomplish in the store. And certainly there is the work we have to do moving product out of the sales floor and checking people out and all the things that just happened because they have to have them in the store. And our goal there is to become more efficient. And to become more efficient not just for efficiency, let's say, but to provide the fuel, so that we can invest in more talent and better expertise on the sales floor, and in particular, in those areas where it matters the most. So, Beauty, Electronics with our visual merchandising in both Home and Apparel and then in Food, those are areas where we have gone out and actively hired for expertise. And that's where things like the wage investment are so critical. They've allowed us to differentiate in who and how we hire people. And so those team members finding ways to bring that expertise in and then keep them on the floor so that the Beauty team member is in beauty all the time. And they're able to help the guests, and they also keep track of what's going on in that part of the store relative to in-stocks and inventory flow.

And so rather than having a team of generalist doing price change one day, checking out the next day and maybe moving freight on Wednesday, these individuals are accountable for their part of the store, they're out there, they get to know the guests and provide a very different level of experience. And then we've invested in tools and a significant amount of training to help them. And this has been a journey we've been on for a couple of years. We will be on it for a couple more years as the team continues to evolve and build capabilities, but we think it's something incredibly important to our long-term success.