Thanks, John, and good morning to all of you. We're very pleased with our first quarter financial results which we announced earlier this morning. Our first quarter adjusted EPS of $1.10 is 19.6% higher than last year and $0.05 better than the high-end of the range we provided at the beginning of the quarter. Comp sales increased 2.3% in the quarter, a bit ahead of our expectation. This increase was driven by a healthy balance of growth in both traffic and average ticket. First quarter digital sales increased 38% over last year driven by higher traffic and a substantial increase in conversion. Digital growth contributed 80 basis points to our comp sales increase in the first quarter.

While we enjoyed a healthy pace of sales throughout the first quarter, we saw particularly strong results in March, as weather warmed across many parts of the country and Easter timing moved seasonal sales into the month. In April, we were thrilled with the overwhelming demand for items from our collaboration with Lilly Pulitzer, with most of the collection selling out in the first few days. We were disappointed, however, that our digital channels were not able to properly accommodate the surge in traffic at the time of the launch, and the team is working to address root causes and learn from the experience as we prepare for holiday season peak later this year.

The first quarter saw a meaningful increase in our gross margin rate as we cycled over a promotional first quarter of 2014, and we benefited from very strong mix of sales in our signature categories this year, both in stores and online. First quarter comp sales in signature categories grew more than twice as fast as our comparable sales overall and mix in our digital channels was even stronger. Specifically, about two-thirds of our first quarter digital sales increase was driven by growth in Home and Apparel. Kathee will provide more detail on category performance in a few minutes.

Once again, our stores did a great job controlling costs this quarter, while outside of the stores we continued to move to a leaner, more agile way of working. During the first quarter, we recorded restructuring charges related to head count reductions at our headquarters. While these reductions were very difficult for all of us, I strongly believe they were a necessary step to remove roadblocks which were preventing us from moving more quickly and responsively to the guests' needs. I want to thank the team for their perseverance during this time of significant transition. I continue to admire the energy they bring to work every single day.

As you know, we are committed to returning cash to our shareholders through both dividends and share repurchase over time, and I'm very pleased that this quarter we began returning cash through share repurchase for the first time in nearly two years. This change reflects the improving health of our U.S. business along with the cash flow benefit of our fourth quarter decision to discontinue operations in Canada.

For several quarters now, I've been talking about the five priorities we're focused on as a leadership team: becoming a leader in delivering shopping on demand for our guests; establishing clear roles in our merchandising categories, with particular focus on growing our signature categories, Style, Baby, Kids, and Wellness; developing capabilities to become more localized in our store experience and more personalized in our digital interaction with guests; continue to develop and test urban formats like CityTarget and TargetExpress; and finally, transforming the way we work to create capacity to invest appropriately in the growth initiatives I just described.

I strongly believe if we make progress on these five priorities over the next few years, Target will deliver outstanding financial results and become an even stronger retailer. While we're at the early stages, I'm encouraged with signs of progress on these efforts. Specifically, our strong mix of first quarter sales in signature categories demonstrates the value of the work to define category roles. We continue to rollout upgraded fixtures in Apparel, Beauty, Baby and Home while investing in Wellness with programs like Made to Matter. Our buying teams are focused on delivering enhanced newness, quality, and value to our guests and we're communicating this renewed focus in both traditional and digital channels.

Our digital sales growth of nearly 40% on top of 30% growth a year ago shows that we have a meaningful opportunity to generate comp sales growth through investments in digital channels. And following our March head count reductions at headquarters, our teams are taking a fresh look at everything we do and taking steps to remove approval layers and increase the speed of decision-making. While there will certainly be a meaningful adjustment process, I believe we will emerge with an agile and engaged team that is equipped and empowered to act quickly on behalf of the guest.

These signs of progress are meaningful to the team and demonstrate the value of our efforts, and validate our strategic priorities. Yet, as we look ahead, we realize we're on a much longer journey and need to accomplish many more things. Specifically, we're in the very early stages of our work on localization and personalization. In the future, these efforts should benefit both sales and gross margin rate.

And while we're still in the testing phase, we're very encouraged by the progress in evaluating and rolling out urban formats, like CityTarget and TargetExpress. We opened two new Express locations in the San Francisco market this quarter, both of which are quite different from our first location in the Minneapolis market. We expect to open six more locations this year in a variety of markets and demographic areas to continue to learn how to operate this new format in a diverse array of sizes and settings.

Finally, we are just beginning to reinvent our food assortment and presentation. We have an opportunity to drive more traffic and sales in this critical area of the store by becoming more specialized in our assortment, more focused on healthy options in support of wellness. We're testing potential assortment and presentation options and this year we plan to study the guest response to potential changes before determining what we'll rollout more extensively next year.

While this quarter's results are encouraging, we're focused on the work ahead of us as we transform ourselves to become a truly modern retailer and more relevant to our guests. We're taking the necessary steps, both in our investment decisions and the way we work, to position Target for continued profitable growth in the years ahead. The momentum we've seen so far makes us more confident than ever that we're moving the right direction and encourages us to move even faster. Yet we know that long-term success depends on achieving the right balance between speed and the time it takes to confirm we're making the right changes that we can execute at scale. Once we have that confirmation, we're committed to moving forward both quickly and confidently to becoming the retailer our guests want Target to be.

Now, I'll turn it over to Kathee to recap our first quarter results and plans going forward.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Thanks, Brian. In the first quarter, we saw encouraging trends across many dimensions of our business including traffic, sales, merchandise mix, markdown rates, digital channel growth, and overall profitability. Within our sales, our results reflect our continued focus on growing signature categories. Beauty had another outstanding quarter and delivered more than a 5% comp but Apparel and Home were right behind with a mid-4% comp. Given weather trends and Easter timing, Apparel comps peaked in March but were strong throughout the quarter. Among the drivers was swim, where we saw better-than-expected results across the board in women's, men's, and kids. In ready-to-wear, we saw particular strength in Merona and our new plus-size brand, Ava & Viv. And while it's small relative to the quarter, the response to the Lilly Pulitzer partnership was the icing on the cake as more than 90% of the Apparel items sold out the first day.

Across the rest of our assortment, food comps were just below the company average and hardlines experienced a mid-single-digit comp decline, reflecting a very tough comparison to last year when we saw particularly strong sales from Disney's Frozen and elevated promotions drove sales in electronics. As Brian mentioned, first quarter comparable sales were driven by a healthy combination of growth in both traffic and average ticket. Within average ticket, an increase in average retail was partially offset by a decline in units per transaction. This decline in average units was driven by category mix, particularly Apparel along with channel mix, as digital transactions typically have fewer units at higher average retail.

Besides channel mix, growth in average retail was driven by a lower level of promotional activity this year and a trend in which our guests are trading up to higher quality and premium branded items. We were really pleased with the pace of digital channel sales growth this quarter and even happier that it was driven by Home and Apparel. But our digital goals are ambitious and we have a lot more work to do, so we're continuing to invest in and roll out new initiatives to maintain our momentum.

The February launch of a lower $25 free shipping threshold drove a meaningful increase in conversion this quarter and guests continue to embrace store pickup, which was up more than 100% from a year ago.

Subscriptions are also growing rapidly. Sales on subscription grew 32% between the fourth quarter and the first quarter, and the active subscriber base grew 20% within the first quarter. And we continue to see great results from our ship-from-store capability, which delivers shipping savings for us and reduced delivery times for our guests, and we expect to roll out this capability to more than 200 additional stores this fall.

As I mentioned in the last call, we were very happy to see the West Coast port situation resolved, yet we knew it would take a few months for the shipping backlog to be completely relieved. As of today, I am pleased to say that those delays are fully behind us. Consistent with our fourth quarter experience, the team did a great job in the first quarter working around port-related issues by pre-ordering inventory and rerouting shipments. However, despite these efforts, some categories including shoes, saw spotty in-stocks in the quarter and saw sales accelerate as receipts began to flow and in-stocks recovered.

As we look ahead, we are working to build on our current momentum in the second quarter and beyond. In Apparel, beyond swim, we've been seeing encouraging trends in shorts, dresses, tanks, and sandals, and expect these businesses to be a key driver of second quarter sales.

In jewelry and accessories, this morning, we announced a new limited time partnership, Eddie Borgo for Target that launches July 12. Eddie has crafted a first-of-its-kind limited edition collection of customizable jewelry, accessories, and wall art featuring the designers' signature aesthetic and on-trend colors and finishes.

In Home, we're seeing great momentum in our tabletop business and we'll expand the offering this quarter with a broader selection of both indoor and outdoor options for summer entertaining. We're also excited (15:03) programs which will launch in July featuring more exclusive content from licensed and exclusive brands and do-it-yourself programs which will allow students to decorate their own journals, notebooks, and lockers.

In Wellness, we continue to see amazing results from the Made to Matter collection. Since the announcement of this collection, featured brands are running up 25% to last year and the collection is on track to record $1 billion in sales this year.

And in Kids, we have a blockbuster set of licensed programs planned for the second quarter and beyond. In stores now, we're offering about 150 items from the new Avengers movie including many that are exclusive to Target. To support the release, we've created an omni-channel marketing campaign that includes social media engagement and a uniquely creative stop-motion broadcast spot that brings the actual 12-inch action figures to life. Also this summer, looks for exclusive items across multiple categories in celebration of the June release of Jurassic World and the July release of Minions.

On target.com, we've expanded our licensed offering by creating experiences for our top 29 licenses. Each of these experiences includes favorite items that we carry in both channels plus extended assortments that include collectibles, more apparel choices, and hard-to-find toys. We will continue to roll out experiences to more of our favorite characters throughout the year.

To celebrate the 65th anniversary of the iconic comic strip, Peanuts, we're rolling out a summer collection of more than 100 exclusive products. These items are the work of our own product design and development team who partnered with current Peanuts cartoonist and the Charles M. Schulz Museum to design fresh, fun items that are true to the comic strip's roots. We'll roll out more exclusive items across multiple categories throughout the year leading up to the release of the new Peanuts feature film in November.

And finally, like moviegoers, we're already excited about the December movie release from the most famous license of them all, Star Wars. Earlier this month, as part of the worldwide 'May the 4th Be With You' event, we allowed Darth Vader and Yoda to take over the target.com homepage, offering special online-only deals on Star Wars licensed product. We'll provide more details on our next earnings call but for now I can assure you that Star Wars fans will find plenty of reasons to visit our stores and target.com this year.

As we said many times, we're encouraged by our progress but recognize that we are only at the beginning of a multi-year journey to transform our business. We continue to roll out new store fixtures to enhance the shopping experience in Apparel, Baby, Electronics, and Home, and we're working quickly to develop and test ideas to reinvent our food area to become more specialized and more clearly embrace Wellness with local products, naturals, organics, and clean labels.

And we continue to invest in our technology and supply chain capabilities to allow our guests to shop on demand and receive products where and when they want. The good news is that even though we have much more to do, the positive guest response to what we've already accomplished makes us confident we are moving in the right direction.

Now, I'll turn it over to John, who will share his insights on our first quarter financial performance and our outlook for the second quarter and beyond.

John J. Mulligan - Chief Financial Officer & Executive VP

Thanks, Kathee. Our first quarter financial results were stronger than expected, driven by better-than-expected sales performance particularly in our signature categories. Adjusted EPS of $1.10 was $0.05 above the high-end of the guidance range provided at the beginning of the quarter. First quarter diluted EPS from continuing operations of $1.01 about $0.09 lower than adjusted EPS driven primarily by pre-tax restructuring costs of $103 million combined with small adjustments for breach-related expenses and the favorable resolution of income tax matters. First quarter GAAP EPS of $0.98 included a $0.03 loss on discontinued Canadian operations compared with a $0.24 loss on Canadian operations in the first quarter 2014.

Our first quarter comparable sales increase of 2.3% was just ahead of the guidance of 2% we provided at the beginning of the quarter. We were pleased with the sales results throughout the quarter but they were particularly strong in March as weather warmed and Easter timing moved seasonal sales into the month. Comparable sales growth for March and April combined which eliminates the effective Easter timing was stronger than we experienced in February.

Digital channel sales increased 38% in the first quarter on top of more than 30% growth in the first quarter last year. Digital channels drove about 80 basis points of our first quarter comparable sales increase in line with our fourth quarter experience. Comparable transactions were up both in the store and digital channels accounting for approximately 90 basis points of our comp increase. REDcard penetration of 21.5% was about 110 basis points ahead of last year, in line with our expectations. This growth is faster than our fourth quarter pace and consistent with new account growth in the latter half of 2014.

Risk levels on the portfolio continue to run at historically low levels and this quarter we saw an increase in payment rates. This increase is consistent with commentary from others and potentially explains what consumers are choosing to do with some of their savings from lower gas prices. One other note; we've now begun piloting acceptance of chip transactions at our stores as the entire U.S. payment industry prepares to move to chip technology later in the year.

Our first quarter segment EBITDA margin rate of 10.5% was stronger than expected, driven by an unexpectedly strong gross margin rate. Specifically, our first quarter gross margin rate of 30.4% was nearly a percentage point higher than year ago. This year's rate benefited from lower markdowns as we annualized the last year's promotional activity following the data breach and we saw a very favorable mix of sales in our signature category. In fact, the last two quarters are the only two in recent history in which sales mix has been a positive contributor to our overall gross margin rate. This shows the value of our focus on driving growth in our signature category. This quarter, we grew sales and traffic while replacing promotionally-driven sales on lower margin items with higher margin sales in signature categories, and the benefit to our P&L was compelling.

On the SG&A expense line, this quarter we benefited from productivity improvements in the stores and overall leverage of pay and benefits, partially offset by higher technology expense compared with the year ago. Altogether, our first quarter segment SG&A expense rate improved about 20 basis points compared with last year.

Before I leave our segment discussion, I want to comment on our inventory position at the end of the quarter which was about 9% higher than a year ago. This increase was intentional and reflects some decisions we've discussed in the past calls. First, beginning last summer, we increased our inventory commitment in commodity categories to support in-stocks in these frequency driving businesses. And second, our receipts this quarter reflected some pre-buying of imported product that the team had undertaken to mitigate risk before the West Coast port slowdown had been resolved. Looking ahead, we continue to feel very good about our overall inventory level and we expect year-over-year growth to moderate in the second quarter and beyond.

Moving to consolidated metrics. First quarter interest expense was essentially flat to last year and we've returned $333 million to shareholders in the form of dividends in the first quarter, an increase of 22% over last year. As we mentioned during the last call, the improvements in our business results and cash balance have positioned us to once again return cash through share repurchase, within the limits of our capital structure goals. As a result, this quarter we bought back shares for the first time since the second quarter of 2013, investing $297 million in open market repurchases and another $265 million through an accelerated share repurchase agreement late in the quarter. This means that in the quarter we returned over 140% of our net income through dividends and share repurchase.

Given our current cash position and continued strong cash generation by our business, we expect to continue to repurchase shares in the second quarter and beyond and believe we will have the capacity to retire $2 billion or more of our shares in this fiscal year, within the limits of our current investment-grade credit ratings. One note, we ended the quarter with about $1.2 billion remaining on our current share repurchase authorization, meaning that if this activity continues as expected we would exhaust the current authorization later this year. As a result, we will be reviewing with our board the need to increase our share repurchase authorization at an upcoming meeting.

Before I turn to our outlook, I want to pause and discuss our decision to begin reporting after-tax return on invested capital from continuing operations, or ROIC, in this quarter's earnings press release. As you know from our previous discussions and the long-term performance incentives described in our proxy statement, we believe ROIC is an important metric to measure the quality of our capital allocation decisions over time. Also, as you know, we presented our long-term aspirations for this metric during our Financial Community Meeting in March. Specifically, we intend to reach the mid-teens or higher on this metric over the next five years.

Beginning this quarter, we'll report how we have performed on this metric for the most recent trailing 12 months, providing clarity on how we are measuring our own performance while allowing everyone to track our progress. To provide additional context, we're posting the last two years of quarterly calculations of this metric on our Investor Relations website in the Summary Financials section. With that backdrop, this morning we reported that for the trailing 12 months through first quarter 2015, our after-tax return on invested capital was 12.5%, up about 60 basis points from a year before, reflecting improved profitability on a relatively stable base of invested capital in our continuing operations.

Now let's move to our outlook for the second quarter and the remainder of the year. In the second quarter, we expect our comparable sales to increase between 2% and 2.5%, reflecting expected growth in digital channel sales in the high-30% range. Both of these expectations are similar to our first quarter performance and, while it is still early, our results through the first few weeks of the second quarter are consistent with that forecast. We expect our second quarter gross margin rate to improve about 50 basis points from last year as we benefit from the comparison to last year's promotional activity while we continue to make price investments and add quality back into our owned and exclusive brand products.

On the SG&A expense line, we expect our second quarter rate will be 20 basis points to 30 basis points higher than a year ago as the rate benefit from productivity improvement is expected to be offset by a planned year-over-year increase in compensation expense. You'll recall that compensation expense was unusually low in the second quarter last year as we significantly reduced our accrual for full-year incentive compensation in light of softening financial performance. Combining our gross margin and expense rate expectations, we're looking for improvement in our second quarter EBITDA and EBIT margin rates of 20 basis points to 30 basis points compared with last year.

Second quarter interest expense is expected to be about $150 million, well below last year, which was unusually high due to the retirement of some high coupon debt. Our effective tax rate is expected to be just over 35%, higher than last year's 33.7% rate, driven by improved profitability. Altogether, these expectations would lead to second quarter adjusted EPS, representing results of continuing operations in our single segment business of $1.04 to $1.14 compared with $1.01 a year ago.

While we've seen a strong start to the year so far, it is early and we have a lot more to accomplish as the year progresses. However, our first quarter performance validates that we are focused on the right strategic priorities to propel our business forward and it certainly adds to our confidence that we can deliver on our guidance for the year. As a result, we've taken the lower-end of our prior full year guidance up by $0.05 and now expect full year adjusted EPS from continuing operations of $4.50 to $4.65.

With that, we'll conclude today's prepared remarks. Now Brian, Kathee, and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

We'll pause for just a moment to compile the Q&A roster. Your first question will come from the line of Oliver Chen with Cowen & Co.

Oliver Chen - Cowen & Co. LLC

Hi. Congratulations on really solid results. We're very pleased to hear about all the progress. Regarding the comps in the back half, should we think about traffic as the main opportunity, or do you feel like ticket will also be an opportunity? And as we think about gross margin and your product assortment, how are you balancing the idea of investing in price versus the innovation that you're conducting in your signature categories?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Oliver, good morning, and thanks for joining us today. As we think about the balance of the year, I would ask you to think about three important variables, and you saw those come to life in the first quarter. We're clearly focused on driving traffic to our stores and we expect that to be a very important driver of our growth over the balance of the year. But you're also seeing the benefit of our focus on signature categories and the higher ticket that that generates. But importantly, the third element is the increasingly important contribution we're seeing from our digital and online businesses. So as we go forward, we're going to continue to make sure we're seeing growth in traffic, growth in our signature categories that leads to that gross margin rate improvement we saw in first quarter and the higher ticket, but importantly the ongoing contribution of our online channel.

Oliver Chen - Cowen & Co. LLC

Brian, you've been very agile with strategic decisions around the online and digital business. As we look forward to back-to-school and holiday, are there any key pointers in terms of the strategies you're undertaking, particularly as mobile and shipping continue to be hot topics?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Yeah, Oliver, you heard Kathee talk about some of the key initiatives that came to life in the first quarter, and you're going to continue to see us build off of that over the balance of the year. We've completely rebuilt our app. We're focused on improving our subscription and registry. We're leveraging our stores to ship to our guests. So we're going to continue to build on those initiatives as we go forward and continue to make sure that we're making the investments both in technology but, importantly, in the supply chain that brings that online business to life for our guests.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

And, Oliver, if we can go back for a minute to your question on thinking about price versus innovation and how do we balance those, I would just say that we start from the guests, looking at what it is that they expect from any given product category, and then how do we build the very best product which is depending on what it is, could be a combination of both price and innovation or more heavily leaning on one or the other depending on what we're talking about. But very much guest-focused to make sure that we're offering them the content that's going to inspire them and resonate. So there's not one size fits all. It's really guest-focused, driven by each category.

Oliver Chen - Cowen & Co. LLC

Thank you. Congrats. And that was very clear on Lilly Pulitzer. Congrats on that as well. Best regards.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Thank you.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Oliver, thank you. Appreciate it.

Operator

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

Matt R. Nemer - Wells Fargo Securities LLC

Good morning. And I'll add my congrats as well. My first question is on gross margin. Does the gross margin guidance assume a continued mix shift to the signature categories that you enjoyed this quarter? And is the formula for Q2 in terms of price and quality investments, kind of, what we should be thinking going forward, i.e., you were down about 100 last year, and you recapture about half, according to your guidance. Does that seem like a reasonable formula for Q3 as well?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Let me start with the gross margin and the focus for not only the quarter but for many years to come. And we've been very clear about the importance of focusing in on our signature categories. We believe that's our path to differentiating the brand. So you should continue to expect us to focus on building our style categories. And Kathee and her team are making great progress in Apparel and Home and Beauty and you saw the comps that those categories produced in the first quarter. We'll continue to focus on Baby and Kids and accelerate our focus on Wellness. So we believe those categories both in-store but, importantly, as we demonstrated in Q1, online, where a significant portion of our growth in the digital channel was driven by Apparel and Home. So that is a very favorable impact to mix both in-store and, importantly, as we improved and accelerate our online performance.

John J. Mulligan - Chief Financial Officer & Executive VP

The other thing I'd add, Matt, more tactically, between Q2 and Q3, that's really last year where you saw us transition from focusing on significant promotions that were primarily hardlines or some of our lower-margin categories focus to the business, back-to-school and then into the holiday season. So as we think about the way Q2 looks versus Q3, that promotional impact was real in Q2 but it was also, we had a significant mix impact because of where we focused those promotions. A little bit less of that as we go into Q3 and Q4 so the delta between last year's margin and this year's margin will change meaningfully. And as Kathee said, we continue to invest in price and quality across all of our brands.

Matt R. Nemer - Wells Fargo Securities LLC

That's very helpful. If I could ask one follow up on the e-commerce business. I'd love to get your insights perhaps using REDcard data in terms of how much digital growth do you think at this time point is incremental, i.e., are these new customers or infrequent customers? Thanks.

John J. Mulligan - Chief Financial Officer & Executive VP

I think, Matt, I would answer it broadly and say that what we see across all guests is when they become engaged in the digital channel, we see incremental growth in that channel and, importantly, incremental growth in the stores. So their total engagement with us is very incremental, we pickup incremental sales and, importantly, incremental profitability in both channels.

Matt R. Nemer - Wells Fargo Securities LLC

Okay. Thanks, John.

Operator

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

Scott A. Mushkin - Wolfe Research LLC

Hey, guys. Thanks for taking my questions. Just wanted to get into a topic of traffic. I mean I think, traffic was up, second quarter in a row that it's been up. But I was wondering if you could maybe dig a little deeper into that, someone in the grocery space talks about loyal households and it seems to me when you think about Target, you guys want to build frequency and want to build these loyal households. How are you thinking about that? Do you measure that? Is that measure improving? Some of our research suggests some of the early things you guys are doing should be building this number but I want to get your take on it.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Yeah, I would say that, Scott, it's pretty early in our transformation to say that we see momentum in that measure as it pertains to food. I will tell you a lot of our growth in transactions is driven by new guests and that's driven more in the signature categories that we have been talking about. Now we believe that we have an opportunity there to drive traffic in food and that's why we're in the midst of putting a lot of tests out in front of our guests both product and presentation to get that business on track and to make sure that we've got a really compelling point of view for our guests and then we will measure that over time to make sure that we're making progress. But today, I would say it's more driven by the signature categories that we've highlighted.

Scott A. Mushkin - Wolfe Research LLC

Yeah, I mean that's actually where I was going not just food, just on the idea that I think your heavy users are up 25, 30 visits a year. Are you seeing increase in those types of loyal households? It seems to me that might be a key driver here as we go forward to get that frequency up?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Scott, it's certainly something that we're going to continue to monitor and measure over time. It's still very early for us, but that is a measure that we're clearly looking at. We absolutely want to make sure we're building loyalty. We want to build engagement and traffic. We believe our focus on signature categories brings guests back to Target looking for what's new, what's exciting. And we also want to make sure we complement that with an improved food assortment because we know food is critically important to building engagement and driving overall traffic.

Scott A. Mushkin - Wolfe Research LLC

All right, perfect. And I had one other one, we obviously are in stores quite a bit and I wanted to get your take, I mean some of the pushback that we hear from investors is on the store level execution, staffing levels, in-stock position, I think people which are maybe just be a little bit better and I was wondering what you think of that and are there initiatives to kind of improve some of those measures and where do you think you are kind of what inning do you think you are in on these areas?

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Yeah, I think as we would measure that and as we look at the guest feedback that we get, Scott, I would say store execution is very high. Guests are very satisfied with the number of people that we have; their ability to help them. I would say that we have an opportunity on the in-stock side and we've been working on that collectively stores and merchandising as we work through the port situation and getting those back in stock but also just our everyday basics. And it's one of the reasons why our inventory is elevated as we talked about is that we have been making investments, particularly in essentials category to make sure that we can raise our inventory levels appropriate to be in-stock in those categories. So I think that's where we have the most opportunity right now.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Scott, that's reflected in the key initiatives we've been talking about. As we think about changes we're making in experience to elevate Apparel with mannequins to restructure our Home layouts, to begin to make changes in Electronics, we want to make sure we provide the guests with a great in-store experience particularly in those signature categories. But as Kathee just noted, we also need to make sure we're focused on the basics every day, and we need to make sure we've got very high in-stock conditions particularly in those key consumable categories. So for us, execution at store level is critically important. We believe we have the best team in retail and our focus now is on elevating the experience in those key signature areas of our store and ensuring that we're improving the in-stock conditions for basic essentials.

Scott A. Mushkin - Wolfe Research LLC

Perfect. Our focus group of women was really pleased, so keep up the great work. Thanks.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Thanks, Scott. Appreciate the support.

Operator

Your next question will come from the line of Robby Ohmes with Bank of America Merrill Lynch.

Robert F. Ohmes - Bank of America Merrill Lynch

Hey. Thanks for taking my question. I think maybe for Kathee, the comment you just made to Scott Mushkin about a lot of the growth in transactions being driven by new guests, can you give us a little more insight to that? Is that a shift in traffic away from frequency and towards new guests? And how significant is that? And is there – how are you doing? Is it – are there some new marketing approaches you're taking to get people into the stores to alert them about the signature categories, et cetera? Just some color on that would be great.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Yeah, so this is something that we aim to do all the time. And of course, right now, we're comping against some pretty weak numbers post-breach last year, so certainly that's part of it. As we focus on signature categories, I do think that's getting more new guests back into the brands and in a variety of different areas because signature categories cover so much from Beauty to Home, et cetera, to the different style categories. And I think the way that we're doing it is really what Brian was just talking about, presentations that are really compelling, with product that's very inspirational, and inviting them into the store through our marketing which resonates with them and then when they get to the store or online being able to convert them to a purchase. So it's all of those things that I think are moving the needle.

Robert F. Ohmes - Bank of America Merrill Lynch

And, Kathee, can you just comment more on the sort of propensity to trade-up for the guest? Is it – is there something changing there or is that just easy comparisons?

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

No, we've seen this coming for a little bit now, third quarter was the start of it, continued into fourth quarter and now, again, in our first quarter. But I think as we're improving quality, as we're stepping up our assortments to be more aspirational, we're seeing the guest really resonate with that product and move, and that's broad across virtually all of our categories. So not just in one segment of our business, but really all of them. So I think it's driven by the guest perhaps having a bit more money in their pocket. I think it's the quality that we've put in, they're recognizing those benefits, and they're wanting to be able to trade-up.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Robby, the one point I'd emphasize so that we're really clear, this isn't an either/or, it's an and. So we want to make sure we're delivering exceptional value every day on those core essentials and continuing to bring great quality, newness, innovation and value to our guests as they look for these more aspirational items. So it's not a shift in strategy and it's not an either/or, it's an and, and we've got to make sure that both elements of our strategy include a focus on core essentials and more experiential offerings and when we bring those together, that is the Target brand promise and experience. That's where we bring Expect More. Pay Less to life. So both of those elements are starting to work together and I think you're seeing the guests respond very positively to it.

Robert F. Ohmes - Bank of America Merrill Lynch

Sounds great. Thanks very much.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Thank you.

Operator

Your next question will come from the line of Sean Naughton with Piper Jaffray.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Hi. Good morning, and thanks for taking the question. Just I guess a regional question; in terms of the comp on a regional basis in the first quarter, did you see any differences in your sales trends in states that are potentially a little more dependent on oil and gas? And then I guess the follow up there is, can you also address any negative or potentially positive impact on the organization you see in areas that are increasing the minimum wage?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Let me start with the regional performance trends, and we didn't see any correlation between what you just referred to, changes in the oil and gas industry, and an influence on our comps. Obviously, like everyone else, and this happens every single year, weather did impact regional performance. We had some challenging days in the Northeast. We faced the same ice storms that others did in the Southeast and in the Texas market. But overall, we saw very consistent comp performance across signature categories. The growth Kathee talked about was strong across the country in Apparel and Beauty and Home. And we've seen very consistent performance trends and responses from our guests across the country.

John J. Mulligan - Chief Financial Officer & Executive VP

And to the minimum wage question, no, we haven't seen those types of impacts either.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay. And then just, secondly, it looks like REDcard a nice pickup it looks like on a sequential basis and year-over-year. Can you just talk about where management expectation is now on this particular product and where we think this could potentially go over the next two years or three years here? Thanks.

John J. Mulligan - Chief Financial Officer & Executive VP

It's a great question, Robby (sic) [Sean] (46:01), and I think we're sorting through that. We wanted to get through annualizing past all of last year with the breach and the impact there. We're really pleased that we saw 110 basis points of penetration growth. We're seeing new accounts grow again, roughly split equally between credit and debit. I think as we learn a little bit more here as we go through this year, we'll figure out where we want to go. We still are very energized by REDcard as a product offering. I think the opportunity for us is to tie that into a more holistic loyalty offering for our guests. We're testing some of that now out East and you'll see us as the year goes on continue to test that, take those learnings, and apply it more broadly to the loyalty for our guests.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay, that's helpful. Best of luck in Q2. Thanks.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Thank you.

Operator

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

Gregory S. Melich - Evercore ISI

Hi. Thanks. I had a couple questions. I wanted to make sure I understood the SG&A progression a little bit better. I think, John, in the guidance you said we would delever at 20 bps to 30 bps in the second quarter, which if I take your comp guidance, it suggests it will be up around 5% in dollar terms. Is that – are we thinking about that right? And what's the real run rate once you get through some of these other timing issues and the breaches on SG&A dollars?

John J. Mulligan - Chief Financial Officer & Executive VP

Yeah, I think, yes, you're right, and all of that increase is really incentive expense, offset by again, some productivity improvements. I think as the year progresses, we'll continue to see improvements in SG&A. As we said throughout the year, as the year progresses, we'll continue to start to see the savings that we committed to, the $2 billion, $500 million of savings this year, about half in COGS, half in SG&A. In SG&A, that'll be offset somewhat by investments in technology. So we should continue getting past the noise. As the year progresses, we'll continue to see leverage, probably similar to what you saw in Q1 as we get into Q3 and Q4.

Gregory S. Melich - Evercore ISI

Okay, got that. And then, Brian, I think in your prepared discussion, you mentioned some disappointment on digital execution, particularly around the Lilly launch. Could you give us a little more detail on what's being done to address those issues in terms of how the website actually works or supply chain? Will you ultimately invest more in fulfillment center capacity? Or just some actual actions to try and address that. Thanks.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Greg, in some ways, you've answered the question for me, and we've been very clear in the fact that we're going to make a $1 billion investment in technology and supply chain to enhance those capabilities, to improve our capabilities, to make sure we're partnering up technology with the ability to provide the product effectively through our supply chain. So the Lilly event, while a sensational event for the brand, and we're really proud that we were able to create a Black Friday type event in the month of April, with hundreds and thousands of our guests lining up waiting for that product, but online we know we had some missteps, and we're doing a deep dive, we're looking at root causes and it's going to provide important learning for us as we get ready for the traffic we expect to generate during the holiday season. But we are very committed to putting our capital behind improving technology capabilities and the supply chain requirements necessary to continue to grow that business at the accelerated rates we're delivering right now.

Gregory S. Melich - Evercore ISI

When do you think you'll know the things you need to get done for holiday? Is that something you'll know now or is it something to learn in the fall?

Brian C. Cornell - Chairman, President & Chief Executive Officer

Well, this afternoon would be nice. But we are actively tearing apart the learning and clearly want to make sure that we have the diagnostics in place as soon as possible, and we're making the necessary adjustments and investments to enhance our overall digital experience. So this afternoon would not be soon enough, and the team has an incredible sense of urgency to ensure that we have the right capabilities so that we're constantly meeting the needs of the guests.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

And, Greg, I would just add that we're never done with that. So certainly we're learning from the Lilly event and we will put that into play as soon as possible. But as we're growing at the rate that we are and we're introducing new code all the time, we are never done. So this is an ongoing effort probably until the end of time.

Gregory S. Melich - Evercore ISI

Good luck. Thanks.

Operator

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

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Hey, guys. Couple questions. First, just on Made to Matter, just can you give us how many brands have been designated with that? What categories you're seeing being most impactful so far? And what you're doing from a marketing standpoint to support them?

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

Yeah, so Made to Matter's been a fantastic program for us, Peter, as you know, we went from about 15 vendors last year and we increased that to about 30 vendors, 31 vendors this year, and we're seeing about 25% lift in sales. So the guest is really loving the product that we're offering. It's in a variety of categories. There's certainly food products but there's Beauty products, there's OTC, there's Baby. All of them, though, are really driven by simpler, better-for-you product, whether that's in food with cleaner labels and organic or whether that's in Baby where it's cotton and more natural materials, but really great results, and we marketed it most recently in the past month in what we call, the rear seasonal area of our store, where we brought all the products together for the first time and had really fantastic results. There was a marketing campaign that went along with that that really resonated with the guests, and then the in-store presence helped make it easy for them to find when they came to the stores.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Peter, I think the great part of the program is it's just another point of validation, that when we understand what the guest is looking for and we deliver the right curated assortment, they respond really well. And you know that we have over 25 million guests visit our stores every week. We know that 98% of our guests purchase natural or organic products. Thus, we need to make sure we offer them the products and the selection they're looking for. It doesn't mean that conventional products don't play a very important role going forward, but our guest has voted. We understand the guests better than ever before, and Kathee and her team are just doing a sensational job of curating the right assortment and bringing the guests what they're looking for when they shop at Target.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

That's helpful. Do you think is 30 vendors to 31 vendors a good number that you guys think you'll stick with? Do you think you'll add additional vendors to that program over the next 12 months or just maybe rotate out some and keep the number at 30 vendors, 31 vendors?

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

I think that's a pretty good number. We're still evaluating the program, it's just we launched the new vendors this spring so we're still analyzing those results. But to Brian's point, the guests will guide that work. The important part about Made to Matter is that while these brands might be carried elsewhere, we have exclusive products with meaningful innovation within the program within Target and that's what's really resonating with the guests. They recognize those brands are at Target and they love to buy them but they come looking for those new exclusive really innovative products. So I think keeping the number at a reasonable amount so that we're sure that we can drive that right innovation that's very much a partnership with us and these suppliers. So I think we're in the hunt with the right number.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Okay, that's helpful. We've definitely seen it in the stores as well. Quick one just on the food repositioning. In terms of the cadence this year in terms of testing things, what should we be looking at? Is there going to be space allocation changes? Is it going to be just new brands? And once you do decide what you're going to do, is it going to be an early 2016 kind of rollout, something that could impact a lot of that year? Or is it something that would happen, kind of, later in 2016? Thank you.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Peter, Kathee and I have been talking about this for several months now. We're using 2015 to test and learn. Kathee has talked about key categories within food that we really think Target should stand for, and we're looking very closely at how we evolve assortment and how we merchandise those categories going forward. But this is not about how fast we make the changes. We want to make sure we really have a chance to test, learn, get the feedback from the guest, iterate, so that as we move into 2016 and beyond, we move forward with confidence. And with the confidence that the guest has guided us through the changes we're going to make. So we're clearly focused on it, the team is making very good progress, but we're in that test and learn and validate environment right now, and you should expect to see much more unfold as we get into 2016.

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

The thing that I would add is as we're going to the testing, as Brian mentioned, we're testing many different things, whether that's assortment changes that we're making, presentation changes that we're making, supply chain changes, part of our testing is to try to isolate those tests so that we can get a good read. So there's not going to be one place that you can go look at what is the new food innovation look like. We've got it all over the place. And the other thing that I would add is you know that we've just hired Anne Dament to run the Senior Vice President of Grocery, and we're very excited about that. She's been onboard now for about a month, and brings us 19 years of experience in grocery and CPG.

So she's certainly learning and onboarding into Target and bringing a wealth of knowledge from grocery which will also impact what we put forth in terms of tests for the rest of the year. But I think you can look to 2016 as we learn and prove out what's working with the guests, what's resonating, we will start rolling those in 2016 but don't expect the big bang on January 1. To Brian's point, this is really about getting it right and delighting the guests, not moving fast.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Understood. Thanks, Kathee. Thanks, Brian.

Operator

Your next question will come from the line of Bob Drbul with Nomura.

Bob S. Drbul - Nomura Securities International, Inc.

Hi. Good morning. I just had a couple questions. On the gross margin line, did shipping expense at all impact you with the move to $25? And how many REDcard holders are utilizing their cards for free shipping? How do we think about that as e-commerce continues to grow?

John J. Mulligan - Chief Financial Officer & Executive VP

So certainly shipping expense went up when we moved to $25 but I would tell you not a material impact on the quarter. And net-net, as we've said, as that brings more guests online, they shop our store, and so a net positive as far as we're concerned across the lifetime value of those guests. I don't have the actual number of REDcard holders that use free shipping on the site, but I can tell you the penetration of free shipping due to REDcard on the site is very, very high. In general, we have a very high percentage of our shipping that goes out free from the site.

We talked about this last year when we shipped to free – switched to free shipping during the holiday season and I think that is why, going back to what Brian said, the supply chain investments we make are incredibly important for our guests because they provide speed to market from their perspective but they're incredibly important for us because they improve the economics of our online business meaningfully.

Bob S. Drbul - Nomura Securities International, Inc.

Thanks. And then the second question I have is there's a lot of license initiatives that are coming over the next several quarters. When you think about the year-over-year impact on the business overall, are those gross margin accretive in terms of what they're trying to do? Would they be lower margin? And just how do we think about that as it relates to the mix and the gross margin overall?

Kathryn A. Tesija - Executive Vice President, Chief Merchandising and Supply Chain Officer

A lot of that depends on the categories. I think the good part about licenses at Target is that our guests respond to them very broadly, so it isn't just a toy or a video game. For us, there's Apparel involved, there's back-to-school products like backpacks and notebooks. So it's a pretty – they have a pretty healthy margin mix just given the breadth of category, and most of them fall into our signature categories. So we're very excited about the lineup of licenses and the fact that they start this summer and really go all fall.

Bob S. Drbul - Nomura Securities International, Inc.

Great. Thank you very much.

John R. Hulbert - Vice President-Investor Relations

Okay. We have time for one more question.

Operator

Your final question will come from the line of Christopher Horvers with JPMorgan.

Christopher M. Horvers - JPMorgan Securities LLC

Thanks. Good morning, guys. So two quick ones. You originally guided the first quarter gross margin up 40 to 50, so I was curious what came in better versus your expectations? Was it mix or was it the level of promotions, lapping the level of promotions year-over-year? And then I have a follow up.

John J. Mulligan - Chief Financial Officer & Executive VP

It was mix is what came in better, and I think we see that in two ways. First of all, there's just the mix of selling those products and then when we see strength in Home and Apparel, of course, our sell-throughs go up, and so we have less markdowns. And so the positive benefits of mix go on and on.

Brian C. Cornell - Chairman, President & Chief Executive Officer

Yeah, I'd only add, Christopher, that again, we saw that mix benefit both in-store and online. So the combination of those two channels working together clearly impacts and improves gross margin rate.

Christopher M. Horvers - JPMorgan Securities LLC

Understood. And then so the outlook – and you mentioned this going forward, the outlook in the second quarter is predicated on recapturing both of those and then going on further in the year. It's really expectation that the signature categories out-comp more the essential side?

Brian C. Cornell - Chairman, President & Chief Executive Officer

That is certainly core to our strategy as we go forward. And I think what you saw, what we saw in Q1, very solid performance. Kathee and her team did a terrific job of curating the right products, particularly in those signature categories for our guests. Despite some of the port challenges, our supply chain teams did an outstanding job of making sure we had inventory in place for the guests.

I was very pleased with our marketing program, and if you haven't seen the Target style campaign or some of the things we just did for Avengers, its spectacular advertising and the guests are responding to it. And our store teams just did a phenomenal job throughout the quarter despite port challenges and weather challenges of providing the guests with a good experience and it added up to really solid results in Q1. So we hope that continues. We're confident it's going to continue throughout the year, but we feel good about the progress, we know we've got a lot of work in front of us, but that combination of strong in-store and online growth in the first quarter gives us a lot of confidence that we're heading in the right direction.