Good morning everyone and thank you for joining us on our second quarter 2019 earnings conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer, John Mulligan, Chief Operating Officer, Mark Tritton, Chief Merchandising Officer and Cathy Smith, Chief Financial Officer.

In a few moments, Brian, John, Mark and Cathy will provide their perspective on our second quarter performance, our outlook and progress on our long term strategic initiatives. Following their remarks, we will open the phone lines for a question-and-answer session.

This morning, we are joined on this conference call by investors and others who are listening to our comments via webcast. Following the call, Cathy and I will be available to answer your follow-up questions.

And finally, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings. Also in these remarks, we refer to non-GAAP financial measures including adjusted earnings per share. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, which is posted on our Investor Relations website.

With that, I will turn it over to Brian for his thoughts on our second quarter performance and our outlook for the rest of the year and beyond. Brian?

Brian Cornell

Thanks John. We are really pleased with our second quarter financial performance, which reflects the durable model we have built over the last several years. In building this model, we focused on making changes to ensure we maintain long term relevance with our guests, while positioning our business to grow profitably over time. When we began this journey to transform our business in 2017, we said that 2019 would be the year when we would be positioned to deliver profitable growth and our results through the first half of this year have certainly fulfilled that expectation.

On the topline, our business delivered second quarter comparable sales growth of 3.4%, driven primarily by traffic. This growth was on top of unusually strong comp growth of 6.5% in the second quarter last year, meaning that our comp sales have increased about 10% since 2017, our best two year stack performance in well over a decade. On the bottomline, our second quarter profitability was well ahead of our expectations. Our business delivered double digit growth in operating income, which translated into record high earnings per share numbers and more than 20% EPS growth over the last year.

Among our sales channels, second quarter comp sales grew 1.5% in our stores and 34% in our digital channels. Within our core merchandising categories, we saw more than 5% comp growth in both apparel and essentials. This reflects the broad value we deliver across all of our categories and the balance we achieved between our more discretionary areas like apparel, home and beauty and our less discretionary food and beverage and essential categories, which deliver consistent traffic throughout the year. Beyond our frequency categories, throughout the year, we focus on important seasonal moments in our guest lives and unique partnerships that create excitement and sustain our brand. At the beginning of the second quarter, we were really pleased with the guest response to our limited time partnership with Vineyard Vines, which was one of our most successful in our history. And near the end of the quarter, we saw encouraging early results in our back-to-school and back-to-college categories.

In our digital channels, we continue to see the most rapid growth in our same-day fulfillment options, in-store pickup, drive-up and Shipt, which together have more than doubled their sales in the last year. These options offer speed, convenience and reliability and as a result, they are quickly becoming the preferred fulfillment choices for our guests. And most importantly, because these options leverage our store infrastructure, technology and teams, same-day fulfillment delivers outstanding financial performance as well.

In our stores, which grew both traffic and basket in the second quarter, we continue to elevate both the environment and the level of service. We completed 84 remodels in the second quarter and we are on track to deliver approximately 300 this year. These projects transform the shopping environment featuring end-to-end improvements in our decor, lighting and merchandise displays. In addition, they incorporate changes to optimize digital fulfillment enabling speed and reliability for our guests and efficiency in support of our financial performance.

Within our product assortment, we continue to focus on providing a unique combination of quality, fashion and value across our owned, exclusive and national brands. Just ahead of the back-to-school season, we launched our new multi-category own brand, More Than Magic, which our team developed to appeal to guests in their tween years. And just this month, based on encouraging results in a 20-store pilot, we expanded our test of Levi's Red Tab denim for both men and women to 50 stores in college campuses and in high-traffic urban markets. We were pleased to be partnering with Levi's to showcase this iconic product line previously reserved for department stores, to more and more of our guests.

In recent years, many of our competitors have begun promoting cyber summer sales in the July period, which drives consumer interest in online shopping and causes a natural spike in our digital traffic. This seasonal spike creates a natural opportunity for us to thoughtfully invest in promotions, allowing us to gain mindshare and covert this traffic into additional orders and sales. At the same time, the acceleration in order volume allows us to test the agility of our operations in advance of the fourth quarter peak. I am pleased to report, like last year, performance of our July deal days event was outstanding, both in terms of guest response to our promotions as well as the ability of our operations to handle the surge in demand.

And while I am on this subject of agility and operations, I want to take a moment and address the system outages which affected our cash registers and payment systems during a busy weekend in June. These outages disappointed our guests. And once again, I want to apologize for the inconvenience it caused. While our business still delivered an outstanding quarter, these outages are a stark reminder of the need for us continue to focus on execution across every aspect of our business every day. On the positive side, I couldn't be more proud of our store teams across the country who put our guest first and worked tirelessly to minimize the inconvenience to our guests. And I also want to thank our headquarters teams who scrambled quickly to assess root causes and recover our systems in a very short time. I have said this before and I see it every day, we have the best team in retail.

As we step back and look at our results throughout the first half of the year, our teams have delivered really outstanding performance ahead of our expectations. Comparable sales have grown more than 4%. Operating income has grown more than 13%. And GAAP and adjusted EPS have each grown about 20%. This performance puts us in a strong position as we enter the back half of the year.

However, as we look ahead to the balance of the year, we are mindful of the volatility and uncertainty in the marketplace, including the timing and extent of additional China tariffs. As you know, the list of products in line for new tariffs include a broad set of consumer categories, including apparel, electronics, toys and home. As a result, we have been following developments carefully and we are encouraged that many items originally slated for tariff increases in September have now been delayed until later in the year.

But as long as the trade situation remains fluid, it will present an additional layer of uncertainty and complexity as we plan our business. Against that backdrop, we expect to continue to benefit from our diverse multi-category assortment, deep expertise in global sourcing and a sophisticated set of manufacturing partners around the world. As a result, we are confident in our ability to navigate this period of heightened volatility and move our business forward. And we are really excited about our plans for the balance of the year in which we will continue to deliver excitement, innovation, convenience and value to our guests.

Beyond the back-to-school and back-to-college season, we are excited this quarter to be bringing back hundreds of items from 20 different designers to celebrate the 20th anniversary of Target's first designer partnership. And just this week, we announced our newest own brand in food and beverage, Good & Gather, which our team designed to make it easy for families to discover the joy of food. Over the next few months, we will be completing more than 100 additional remodels. So more and more of our guests can enjoy an enhanced store shopping experience in time for the holiday season. And of course, we will continue expanding our rollout of drive-up and Shipt across the chain, bringing enhanced speed and convenience to more and more of our guests across the country.

Putting this altogether, in both the third and the fourth quarter, we are planning to deliver comparable sales growth in line with the 3.4% pace we established in the second quarter. As we plan for the profitability of those sales, our guidance reflects the most recent announcements about the extent and timing of China tariffs. Altogether, based on our performance in the first half of the year and our outlook for the back half, we expect to generate full year GAAP and adjusted earnings per share of $5.90 to $6.20, an increase of $0.15 from our prior range. While we certainly see the potential for us to outperform the midpoint of this range, we believe it strikes the appropriate balance between the outstanding trends we have been seeing so far this year and the financial flexibility we will need to manage through a volatile environment. And finally, for the third quarter, we are planning GAAP and adjusted earnings per share of $1.04 to $1.24.

So, before I turn the call over to John, I want to recognize our team for their efforts to deliver such outstanding performance in 2019, but I also want to recognize their hard work over the last few years, which has allowed us to transform nearly every aspect of our business. Without those efforts, we might have found ourselves in the unfortunate position of many of our competitors who are struggling to perform in the face of rapid changes in the consumer and the marketplace. Through the tough times, our team stuck with us. They believed in our plan, they believed in each other and they believed in our brand. And today, I am incredibly honored to be able to share the outstanding results of their work.

With that, I will turn the call over to John for an update on our digital fulfillment capabilities and our plans to continue to grow. John?

John Mulligan

Thanks Brian. This quarter provided further evidence of the payback we are realizing on the investments we have made over the last several years to transform our assets, our capabilities and our team. This work has created an operational model that can generate growth on both the topline and the bottomline, as you saw on our second quarter results.

One place where it's easy to see the impact of our new model is in digital fulfillment where the mix is moving dramatically towards our same-day services, in-store pickup, drive-up and Shipt. In the second quarter, these three services accounted for more than a third of our digital sales, up from about 20% last year. In other words our same-day options are growing much faster than our digital sales. Specifically, combined sales for in-store pickup, drive-up and Shipt have more than doubled over the last year, accounting for nearly three quarters of Target's 34% digital comp in the second quarter.

That means that nearly 1.5 percentage points of the company's overall comp growth was driven by our same-day services. These are remarkable statistics and they demonstrate how rapidly our guests are learning about and embracing these new convenient options. For many guests, they are becoming the go-to choice for their digital shopping because they offer unique advantages. They are immediate. They allow guests to shop and receive their order on the same day. They are convenient. Guests can choose where they receive their order, either at the front of the store, in the parking lot or at home. They are fast. Our standard is for drive-up guest to receive their order in less than two minutes and our average is comfortably better than the standard.

And finally, these services provide certainty. Guest don't have to wonder when a package will arrive at their house and what will happen to the package if they are not at home. And of course it eliminates the need to deal with opening and recycling a stack of cardboard boxes every week. With these advantages, it's no wonder that our same-day offerings receive some of the highest net promoter scores of anything we offer, which means the guest want to use these services again and again after they have tried them.

So if you simply apply a guest-first mentality, you quickly see the value of our investments to develop and roll out our same-day options across the country. But what's even better that these services also make sense for our business because they leverage existing store assets and our store teams in new ways. As a result, our same-day options are also the most profitable within our digital offering.

Over the last few years, we have made a concerted effort to increase the efficiency of all of our store fulfillment options including both our same-day and ship from store capabilities. As a result, since the beginning of 2018, order picking efficiency for pickup and drive-up has increased more than 30%. And similarly, end-to-end labor efficiency for our ship from store capability has also improved by more than 30% over that same period. These are massive improvements which we realized through the natural scale efficiencies we see on higher volume, which are compounded by incorporating improved processes and technology.

These tactics include creating larger batches for picking orders based on the goal to balance efficiency, speed to guest and the guest experience, optimizing the path for the picking to minimize steps to the backroom and sales floor. During seasonal peaks, batches are further segmented into subsections of the store like back-to-school orders this time of the year. Applying new algorithms to prioritize the sequence of order picking based on a range of criteria rather than simply applying a first-in, first-out system, implementing new technology to eliminate ambiguity for our store team members about which work to perform first, when work is due and the optimal box size for packing orders.

And of course, enhancing data reporting for store teams to track the unit efficiency of both pick and pack. This supporting updates constantly throughout the day and provides leaders the ability to understand the drivers of their teams' performance in real-time. These efforts have been focused on store fulfillment. But we have been focused on every step of the guest shopping journey, including returns. We have always offered free in-store returns of digital orders. The guest sometimes prefer to ship their returns back to us.

To make that process seamless, we have worked with our shipping partners to expedite the process of a return for a digital order. Under the new process, after a guest prints their return label at home and either drops it off or schedule pickup at the home, they receive credit for the return as soon as our third party shipping partners scans the return label. This means that refunds are received in a guest credit or debit card account days earlier than before and our guests have noticed. And our guest survey scores have seen a meaningful improvement in the level of satisfaction for refund timeliness, compared with last year.

So clearly, we have done a lot to support our digital growth but we shouldn't forget about store sales which continue to account for more than 90% of our total volume. As we have been saying for years, we believe that in-store shopping will continue to be important and account for the vast majority of retail sales for many years to come. However, in a world where consumers have more choices than ever, inferior brick-and-mortar experiences will go away. That's why we are investing heavily both in our store assets and in the experience our team provides.

Regarding the store assets themselves, we are in the middle a three-year period in which we plan to remodel about 300 stores each year, a more rapid pace than we have ever accomplished. As Brian mentioned, these remodels transform the entire store experience and optimize them for digital fulfillment. And as we have covered in past quarters, we continue to see first year traffic and sales lift in line with our original expectations and second year lifts that we didn't originally anticipate.

As successful as our remodel program has been, we continue to look for ways to refine our process. We continually analyze the results of completed remodels and apply those learnings into our project plans, so next year's remodels won't look the same as the ones we completed last year. We are also finding ways to mitigate the challenges of our guest face when construction is in process, which is leading to smaller average sales disruption than we experienced last year. And while guests are enjoying the upgraded look and feel of their new store, they are also experiencing a change in the way our team serves them.

That's because over the last few years, we have been rolling out a completely new operating model for our store team. This new model is simpler and focused on our guests rather than accomplishing tasks. We have also created more specialized roles in which team members bring their expertise to categories like food, beauty, electronics and apparel. The second quarter was the first time we had the new model fully implemented across the country and we continue to be happy with the results.

For example, we are seeing improved guest survey scores on questions about their interactions with our team, both on the sales floor and the checkout. Beyond the guest experience, we are also seeing the benefit of the operating model in our financial performance. Like everyone else, we are currently experiencing meaningful wage inflation in a very tight labor market. However, because of our ongoing investments in our team and this new operating model, we are seeing strong efficiency improvements in our stores, which is helping to mitigate the impact of higher wages.

Before I turn the call over to Mark, I want to talk about our longer term vision for the supply chain. Specifically, I want to address the questions we continue to hear about the long term prospects for our strategy of using our stores as fulfillment hubs. One form of the question is to ask if this strategy is only feasible when Target's digital sales are still small. My first reaction is to wonder if it's appropriate to consider digital sales of well over $5 billion to be small. But I will stick to what's most important and talk about how we expect to deliver much higher volumes of store fulfilled digital sales over time and based on the questions we have been getting from many of you, I want to cover three distinct questions about our capacity to accommodate growth.

The first question pertains to the ability of our stores to fulfill higher levels of digital sales within their existing square footage. On that question, our experience shows that our stores have a very long runway of capacity. Think of it this way. Last year, stores fulfilled sales accounted for an average productivity of just over $300 per square foot and when you do the math, every additional $1 billion of store fulfilled sales would raise that productivity by about $4 a foot. In other words, if we double last year's $5 billion in digital sales and fulfilled all of that extra volume in our stores, we would see our average store sales productivity rise by just over $20 a foot.

So the question is, can our stores accommodate that volume in their existing space? The answer is clearly, yes. And the easiest way to see that is by looking at the range of productivity of our stores across the chain. Specifically, our top quartile stores, a group consisting more than 450 locations delivered average per foot productivity of more than $430 last year. That's more than $100 higher than the average for the chain. So based on our success in operating that large set of stores, we believe we have a lot of room to grow our overall sales productivity through digital fulfillment.

But there is a second capacity question pertaining to the mix of space in our existing stores. Specifically, we often get asked whether we will need to expand our store backrooms as we continue to see rapid growth in store fulfilled digital sales. On that question, our internal modeling shows that we are not going to run up against any capacity constraints in the near term because our stores already have ample backroom space. Specifically, if we continue to simply apply our existing technology and processes and maintained a rapid rate of growth in store fulfilled sales, we wouldn't need additional store backroom capacity until well into the next decade.

And as an aside, that constraint would only occur during the two week long seasonal spike in the fourth quarter. However, we will only run up against that constraint if our technology and processes stay the same as they are today and that isn't our plan, just as our stores have consistently delivered ever higher productivity in their ability to fulfill conventional sales, we are investing in technology and processes that will allow our stores to continue to grow their backroom productivity as well.

Beyond the capacity of our stores and backrooms, the third capacity question we hear is whether, over time, we are going to need to invest in additional upstream distribution capacity to accommodate our growth. And for this question, our answer is clearly yes. But that shouldn't surprise anybody because we have been adding capacity throughout more than 50 years of growth in our stores. In other words, when you grow any type of sales, either a conventional store sales or a digital sale, eventually you will need that network capacity to serve the additional volume. But that doesn't mean we are sitting on a surprise addition to the CapEx plans we outlined at this year's financial community meeting. The capital plan we outlined that day already accounted for expected future investments in upstream capacity based on our plans to grow both store sales and digital sales in the years ahead. So in other words, adding network capacity isn't something beyond our plan, it's part of the plan we have already articulated.

No before I close, I want to thank the team for their work to turn theory into reality over the last few years. When we started, many people didn't think we would be able to grow store traffic and sales ever again. When we started, many people questioned whether store should play a central role in digital fulfillment. And when we announced our goal to move to a $15 minimum wage across the country by the end of 2020, many people didn't think we could accommodate those kinds of wage increases and generate profitable growth. But because of this team's dedication, vision and energy, we have been able to transform our business and deliver outstanding financial results. Through their efforts, our team has delivered the performance that has converted doubters into believers.

Now I will turn the call over to Mark who will talk about our merchandising performance in the second quarter and our plans for the third quarter and beyond. Mark?

Mark Tritton

Thanks John. As Brian mentioned earlier, we continue to focus on ways to deepen engagement of our guests across multiple facets of our merchandising assortment in discretionary and frequency categories, our own brands and national brands and different shopping occasions, including life events, holidays and every day shopping trips. Of course, the most visible indication of our guest engagement is our traffic growth, which we continue to see across both our stores and digital channels. Engagement can also be seen in the market share data, which continues to show gains across multiple dimensions of our business.

Between our core categories, second quarter growth was strongest in essentials and beauty and in apparel, both of which delivered comp increases above 5%. Results within essentials and beauty was strongest in baby, beauty and over-the-counter. Baby has been one of our strongest share stories for the last year and we saw continued gains in the second quarter. Beauty has also been on an amazing run as we have seen accelerating share gains for well over a year. In apparel, in the second quarter, we saw broad strength across a host of categories, including intimates and sleepwear, jewelry, accessories and shoes, baby and performance activewear. We were particularly pleased to see such strong trends at Target despite unfavorable weather trends during the quarter and soft sales conditions for the overall industry. As a result, we saw some unusually strong share gains across multiple parts of the apparel assortment in the second quarter.

Among the remaining core categories, both our food and beverage and home assortments saw low single digit increases in comparable sales. In food, results were led by adult beverages, which delivered another quarter of double digit growth. In home, results were led by decor. In hardlines this quarter, comp sales were approximately flat overall. Results were led by toys where growth continues at a more moderate pace, given that we annualize the closure of Toys "R" Us during the quarter. In addition, we saw healthy growth in our mobile category during the quarter. These areas of strengths were offset by comp declines in our electronics and entertainment categories, reflecting in overall lack of industry newness in their product assortments. We are expecting this performance to strengthen in the back half of the year as both of these categories will benefit from new launches and product introductions by our vendor partners.

To continue to deepen guest engagement, we focus on delivering a constant drum beat of newness and innovation, elevating key life moments for our guests, while making it easier than ever to fulfill their everyday needs. All add great value. We kicked off the second quarter with our blockbuster limited time partnership with Vineyard Vines and we were really pleased with the results. This is one of our biggest brand partnerships in recent history. And we are happy to see the traffic and sales came in ahead of our forecast. This partnership was also an important moment for our brand as we saw high digital engagement and an amazing amount of buzz in social media.

Also in the quarter, we are pleased with the results for both Mother's Day and Father's Day holidays. Some of our strongest share gains of the quarter occurred during these holiday periods, particular in men's and women's apparel but also in toys and kids. And as Brian mentioned, late in the quarter we were pleased with our early results in our back-to-school and back-to-college programs, which are second only to the fourth quarter holiday season in terms of importance. Strategically planned right before the back-to-school season, we launched our newest own brand More Than Magic, which is a complete lifestyle brand, spanning sportswear, dancewear and gymnastics apparel, jewelry, accessories, beauty, electronics and even stationary.

Our team developed this brand to appeal to tween girls who are looking to move beyond Cat & Jack, but aren't quite ready to move up to a juniors assortment and brands like Wild Fable. Central to the More Than Magic brand is a theme of empowerment through positive messaging on products like apparel and notebooks. In addition, based on feedback we received from both tweens and their parents, all the beauty products in this new brand are made without parabens and weren't tested on animals. We are really excited to launch this new brand at a time when many more mall-based alternatives are closing their doors and we have been very pleased with the early results since the launch.

As we look ahead, we are really excited about our plans for the third quarter when we will continue to invest in newness across both our owned and national brand assortment. As Brian mentioned, earlier this month, we expanded our pilot with Levi's in which we are offering products with the iconic Red Tab label for the first time. Based on the success of our pilot in which we offered men's Red Tab products in 20 stores, we just added another 30 stores to the test and we have expanded the assortment to feature items for both men and women including jeans, tops and jackets. Of course, we are now offering the entire assortment on target.com and given that Levi's is one of the most searched brands on our website, we are excited to offer our digital guest access this iconic label for the first time.

Also this quarter, we are preparing to celebrate the 20th anniversary of our design partnerships which began with our friend, Michael Graves. Then, as today, our goal was to democratize the marketplace and offer incredible design at an affordable price, something we called Design For All. So after 20 years and more than 175 different partnerships, this quarter we are going to celebrate by opening the archives and bringing back nearly 300 items from 20-plus design partnerships and feature them in our anniversary collection. Prices will range from $6 up to $160, with most items priced below $50 and reflecting our commitment to inclusivity, all of the women's apparel items will be available in extended sizing. We will feature the anniversary collection in all of our stores and on target.com beginning on September 14.

And finally, the food and beverage team is looking forward to the upcoming launch of our new own brand, Good and Gather, which we just announced earlier this week. We know that food and beverage is a big reason our guests like shopping at Target since nearly three quarters of our baskets have at least one food item in them. And driven by the improvements we have implemented over the last two years, we have been seeing consistent growth and market share gains in food and beverage for well over a year. To build on this momentum, it's critical that our approach to every aspect of our food offering from selection to presentation brings joy to our guest lives. So in developing this brand, the product design and development team is focused on delivering taste, quality and ease.

And importantly, the entire assortment is made without artificial flavors, synthetic colors, artificial sweeteners and high fructose corn syrup, helping our guest to feel confident they are serving their families affordable great tasting food that doesn't cut corners on quality ingredients. Good and Gather will become Target's flagship food brand with extensions focused on kids, organic and signature product lines. It will launch with over 650 items from dairy to produce, ready-made pastas and meat to granola bars and sparkling water. And by the full set next year, it will 2,000-plus products strong. It will launch in all Target stores and on target.com, the same-day delivery beginning on September 15.

Before I turn the call over to Cathy, I want to pause and thank our team for their energy and focus on delivering more for our guests. After all, our brand promise starts with expect more, more newness, quality, innovation and aspiration. More value, joy and every day surprises. More of what our guests need and more of what they want. And all at an amazing value. That's how we deliver on the pay less side of our brand promise whether offering organic pasta or a fashion item from a low-cost designer, all delivered at an accessible price. When you come to work at Target, the first thing you notice is the quality of the team, their passion for our business and their pride in working for this low-cost company and iconic brand. Across the company, the culture of innovation is infectious and the energy of the team feels limitless. I am so proud of what was already accomplished and I know there is so much more we can do in the months and years ahead.

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

Cathy Smith

Thanks Mark. As Brian mentioned, we saw outstanding financial performance in the second quarter as our business delivered sales growth that was in line with our expectations and bottomline results that were well above our expectations. Our comp sales growth of 3.4% on top of 6.5% last year put our two-year stacked growth at about 10%, our best performance in more than a decade.

Within our sales channels, stores comparable sales grew 1.5% and our comparable digital sales grew 34% on top of 41% growth a year ago. Among the drivers of total comp growth, we saw a 2.4% increase in traffic combined with a 0.9% increase in average ticket. We have long said that we are focused on driving traffic because it is a key indicator of Target's relevance with consumers. That's why we continue to be encouraged that traffic is growing both in our stores and our digital channels. And notably, this quarter, we were facing a really strong traffic comparison of 6.4% a year ago, meaning that our business just delivered the strongest two-year traffic performance we have ever reported.

On the gross margin line, second quarter performance exceeded our expectations as the rate expanded from 30.3% last year up to 30.6% this year. This was the first time in nearly three years that we have seen a year-over-year increase in our gross margin rate. This performance reflected the ongoing work of our merchant teams to optimize assortment, costs, pricing and promotions across all of our categories. In addition, we saw about 20 basis points of benefit from category sales mix, reflecting really strong apparel performance, combined with a moderating growth rate in toys and baby. These tailwinds were partially offset by about 30 basis points of pressure from digital fulfillment and supply chain costs.

Even though we continue to grow digital sales at a very rapid pace, we are seeing less pressure from fulfillment costs, given that we are leveraging our store's teams and assets to fulfill the vast majority of our digital volume. And as Brian and John described, we are seeing incredibly rapid growth of low-cost digital fulfillment options like in-store pickup and drive-up. As a result, gross margin rate pressure from digital fulfillment and supply chain costs in this year's second quarter was about half of the amount we were seeing a year ago.

Moving down to the SG&A expense line, we saw about 50 basis points of improvement in the second quarter. This performance was also better than expected and was driven by multiple factors, including favorability in asset impairments and the timing benefit of marketing and store expenses that will come back later in the year. In addition, our expense performance continues to reflect remarkable discipline across our entire organization which is key to sustaining outstanding performance over time. As John mentioned earlier, an important example is our store teams who are delivering meaningful productivity improvement that are helping us to offset the impact of rapidly rising wages across the country.

Our second quarter depreciation and amortization expense rate was approximately flat to last year as an increase in D&A expense dollars was offset by the benefit of higher sales. Given recent changes to our investment plans, we are now planning for higher accelerated depreciation than we originally expected for the year. One example relates to investments that will allow our stores to accommodate high volume of pickup and drive-up orders during the holiday season. For stores that have particularly high volumes of pickup and drive-up orders, we will be deploying flexible fixtures that will allow the stores to temporarily expand their holding capacity at the front of the store during periods of peak demand. This will allow the stores to maintain their high level of performance in fulfilling pickup and drive-up orders, a key reason we have seen such rapid adoption of these services.

In total, our business saw a meaningful improvement in our second quarter operating margin rate, which expanded about 80 basis points from 6.4% last year to 7.2% this year. As Brian mentioned, this was well ahead of our expectations, putting us in a great position to deliver outstanding financial performance for the full year.

Moving further down the P&L, second quarter interest expense was up $5 million from second quarter 2018, reflecting higher average debt balances compared with a year ago. And our income tax rate was 23%, consistent with the expected range for the year. As a result, net earnings from continuing operations grew $139 million over last year, an increase of 17.4%. At the end of the quarter, our diluted share count was about 3.8% lower than a year ago, reflecting our continued disciplined approach to capital deployment. Putting all this together, our business generated GAAP earnings per share from continuing operations and adjusted EPS of $1.82, both more than 20% higher than a year ago, setting new record highs for the company.

So now I want to turn to cash flow, capital deployment and return on invested capital. But first I want to reiterate our priorities for capital deployment, which have been consistent for decades. As we look to deploy our cash, we first fully invest in capital projects that meet our strategic and financial criteria. Then we look to support our dividend and extend our record of annual dividend increases, which we have maintained every year since 1971. And finally, we deploy any excess cash beyond those two uses for share repurchase within the limits of our middle-A credit rating.

So how have these priorities played out in 2019. Through the first half of the year, our operations have generated about $2.8 billion in cash, up from about $2.7 billion in the first half of 2018. We have deployed that cash to invest about $1.4 billion in capital expenditures, paid dividends of $658 million and repurchased $618 million of our stock. For the full year, we continue to expect to invest about $3.5 billion dollars in CapEx, driven by our remodel program, other investments in store assets, new store openings and in our supply chain and technology capabilities. Looking beyond 2019, we anticipate a similar amount of CapEx in 2020 as we expect to maintain our current remodel pace of about 300 stores for one additional year. Beyond 2020, we expect to moderate the pace of our remodels to a longer term range of 150 to 200 a year. And as a result, beginning in 2021, we expect to see a moderation in the pace of annual CapEx into the $2.5 billion to $3 billion range, closer to the level of D&A on our cash flow statement.

So now I want to finish my review of our second quarter results by discussing our after-tax return on invested capital, which measures the quality of both our operating results and our capital deployment decisions. For the trailing 12-months through the second quarter, excluding discrete impacts of the 2017 tax reform legislation, our business generated an after-tax return on invested capital of 15%, compared with 14.2% a year ago. This is outstanding performance and it's even more encouraging to see the year-over-year improvement which clearly demonstrates the benefit of our consistent disciplined approach to capital deployment.

Turning to our guidance for the back half of the year, I will start with our expectations for comparable sales growth. As Brian mentioned, we expect our business to generate comp sales increases in both the third and fourth quarters, in line with the 3.4% comp growth we just delivered in the second quarter. This expectation recognizes recent trends, now that we fully annualized the closure of Toys "R" Us stores as well as our bottom-up plans for sales driving initiatives in the back half of the year. On the operating income line, we are expecting our third quarter rate will be flat to up slightly, reflecting unexpected improvement in our gross margin rate offset by pressure on the SG&A expense line. Our gross margin rate expectation reflects last year's supply chain and inventory related pressures that we don't expect to occur again this year. On the SG&A expense line, our expectation reflects the plans re-timing of spending within marketing and our store's teams from the second quarter into the third quarter. And as Brian mentioned, our outlook for the back half of the year includes expected cost resulting from the most recent announcements regarding China tariff.

Putting together all of our expectations, we are anticipating third quarter GAAP EPS from continuing operations and adjusted EPS of $1.04 to $1.24. For the full year, our expectations reflect strong trends through the first half of the year, the re-timing of marketing and store cost into the back half of the year, updated expectations for accelerated depreciation and expected costs related to tariffs, including the increases currently scheduled for September and December. Reflecting all of these considerations, we expect to deliver full year GAAP EPS from continuing operations and adjusted EPS of $5.90 to $6.20, which is $0.15 higher than our previous range. The midpoint of this new range of approximately 10% higher than last year's GAAP EPS from continuing operations and 12% higher than last year's adjusted EPS.

This is outstanding performance ahead of our original expectations for the year.

So before I turn it back over to Brian, I want to thank the entire Target team for everything they are doing to drive this outstanding performance. It reflects years of work by our team to transform our business and build a durable financial model. And it reflects our teams' passion for our guests and a relentless focus on strong execution every day. When we first announced our transformation plan at the beginning of 2017, we talked about the assets we had at our disposal, including well-maintained and well-located stores, powerful owned brands, an iconic Target brand, a strong balance sheet and a business that generates robust cash flow. But what was most important, both in 2017 and today, is the team that powers our business. As Brian said, we are lucky to have the best team in retail and every day I am grateful for the opportunity to work with them and learn from them.

Now, I will turn it back over to Brian for some closing remarks. Brian?

Brian Cornell

Thanks Cathy. Before we move to your questions, I want to take a moment and acknowledge that my first Target earnings call was almost exactly five years ago today. And I think we all agree that Target has changed a lot in those five years. During that time, we exited our Canadian segment allowing our teams to devote all of their energy to our U.S. operations. We sold our pharmacy business to CVS, a transaction that has generated value for both companies. We rejuvenated our own brand portfolio, launching dozens of new brands across multiple categories. We went from simply selling on a website to integrating digital within every part of our business, positioning our stores at the center of the most comprehensive suite of digital fulfillment options in the U.S. We opened about 100 small format stores, reaching new neighborhoods in dense urban areas and around college campuses. And we made significant changes to our team and how we work, both at headquarters and our stores.

When I came to Target, I had an inside look at why this company had such a strong reputation for hiring and developing talent, Target has a unique an outstanding team and I am truly grateful for the opportunity to work with them. But what's most amazing is the patience and optimism that this team has shown over the last five years as we have handled some significant challenges together. That's why it's so rewarding to be able to share the amazing results that this team is delivering today. At the same time, we are focused on the need to stay hungry, see around corners and continually innovate and reinvent ourselves. The pace of change in our business doesn't look like it's poised to slow down anytime soon. But I am confident this team will continue to lead Target and the industry, allowing us to deliver outstanding results both this year and well into the future.

So with that, I want to thank you for your today. And now we will move on to your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Chris Horvers with JPMorgan. You may go ahead.

Chris Horvers

Thanks. Good morning everybody. This was obviously a big quarter for investors. You lapped Toys "R" Us. You had the register glitch on Father's Day weekend that some people pegged at 50 basis point headwind to comps. You had the weather. So can you shed any light on the cadence of the quarter in light of the weather? How mature was the Father's Day weekend glitch and the impact to comps? And then more broadly, the gains in apparel and continued gains in baby, what would you sort of rank order the big drivers that are allowing you to gain that share?

Brian Cornell

Yes. Chris, I will start. And I think as we look at the quarter, we saw very consistent performance throughout the 13 weeks of the quarter. And as I have said several times now, there is not one element that we can point to. We saw a very good response from both sides of our portfolio, both our style side and our essentials. Mark called out the strength that we saw in categories like apparel, but also strength in those household essentials that drive traffic to our stores and more and more visits to our site.

So it was a very balanced quarter, strength across our entire portfolio. And I think the team has been just very focused on executing our plans, both from a store standpoint and a digital standpoint. So it all added up to a very solid quarter. We think we delivered quality results throughout the quarter that led to traffic gains of 2.4%, a very strong comp, market share gains in many of our core categories and overall obviously delivered very strong bottomline performance. So I can't point to one specific element.

I - we saw consistent strength and great execution each and every day. And the investments we made in store remodels, the investments we are making in new small formats continue to perform very well. As we continue to scale and mature our suite of fulfillment options, the guest is reacting honestly very well to those options. We continue to see a great reaction to both our own brands and our national brand performance. But I think our team was just focused on executing our plan each and every day and I think it ended up with a very strong quarterly success.

Chris Horvers

And then as a follow-up, we are hearing a lot from the apparel side, the inventories in the apparel world are bloated given some of the channel shifts that they are experiencing and from some of the weather in the second quarter. Obviously, your inventory is flat year-over-year. But could you perhaps talk about how you look at the health of your inventory, particularly in the more seasonally sensitive areas? And frankly, given the momentum in the business, do you think that you are in a good enough in stock position to hit your guidance expectations? Thank you.

Brian Cornell

Chris, based on the health of our business right now and the momentum we have going into the back half, we feel very good about our inventory position. Obviously, the strength of our performance in categories like apparel speaks for itself. But I think as we prepare for these big seasonal moments, I think we feel like we are in a great position for back-to-school and back-to-college. I would actually say it's the strongest position we have had in years as we get ready for the peak of college. And as we get ready for back-to-school that continue to surge over the next few weeks, I think we feel very good about our position and I think it's actually the best inventory position we have had in years in both of those categories.

Chris Horvers

Thank you. Best of luck.

Brian Cornell

Thanks Chris.

Operator

Thank you. The next question comes from Kate McShane with Goldman Sachs. You may go ahead.

Kate McShane

Good morning. Thanks for taking my question. The first question I had was just about the timing of the expenses that were called out and why they shifted? And Cathy, I wondered if you could quantify how much favorability the asset impairment and the shift of expenses out of the quarter into Q3 benefited Q2?

Cathy Smith

Yes. Happy to. Good morning Kate. So first off, the magnitude of the expenses, both in marketing and our stores, as you have seen already beginning in Q3, we have got some amazing plans in Q3. So we just had some expenses to support those plans and it's probably in 40 basis point range, maybe a little lower -- sorry, $40 million range and maybe a little bit lower going from Q2 into Q3. So that's what you are seeing reflected on the SG&A line. And then you asked about, I am sorry, your second question was?

Brian Cornell

The impairment.

Cathy Smith

Yes, the impairment. Year-over-year, it reflects the strength of our business, actually, that we had very low to very little impairments this year versus what we have seen in the previous years. And so that was actually pretty significant and you will see that in the Q as well.

Brian Cornell

Kate, I am actually glad you called that out. Actually, we were talking prior to the call. While there's lots of highlights that we have already covered in the quarter and one of the things that stands out for me is the health of our assets and the performance of our stores. And I think that showed up in the change in asset impairment during the quarter.

Kate McShane

That's great. Thank you. And then just as a follow-up, I know the tariff situation is very fluid, but if List 4 were to come to fruition on December 15, is that something that impacts 2019 or is it really a 2020 impact?

Brian Cornell

Kate, again, while we are watching this very carefully and obviously we know there has been a number of shifts over the last few weeks, as it sits right now, this is largely a 2020 issue. So we have got all of the current tariffs built into our guidance and our plan for the balance of the year. Mark and his team have done a sensational job of scenario planning as we get ready for the balance of this year and going into 2020. But as it's stated today, the impact of List 4 would be something that we would realize in the first quarter of 2020.

Kate McShane

Thank you.

Operator

Thank you. The next question comes from Robby Ohmes with Bank of America Merrill Lynch. You may go ahead.

Robby Ohmes

Good morning guys and congrats on a great quarter in a tricky environment out there. I was hoping to get some of you to talk more about the digital growth outlook. So digital came in, I think, well above what a lot of people were looking for. How should we think about that growth going forward? I think you guys had pegged it around 25% for the year. Can you do a lot better than that? And maybe an update on how many store pick-up locations and drive-up locations you are at or you may be accelerating that? And are more categories coming into pick-up and drive-up, like fresh produce, et cetera? Just any help you can give us there would be great. Thanks.

Brian Cornell

Robby, why don't we let John kind of walk through some of the highlights of our digital performance, which again was very strong during the quarter, up 34% on top of significant growth last year.

John Mulligan

Yes. Robby, good question on the kind of some of the same-day fulfillment. We are really excited about what we continue to see there across pick-up, drive-up and Shipt. That was about three quarters of the digital growth was represented by same-day. It's a third of the business now and growing very, very quickly. So we are excited about that. Pick-up is nationwide and it has been nationwide for several years. Drive-up is very close to being nationwide. It will be largely done here as we get through the third quarter.

And your question about fresh is a good one. Something we are working hard on, piloting here in the Twin Cities and looking to understand the operational needs there a little bit more as we get through the back half of this year and then be back to tell you more about how we plan to scale that as we get into early next year. But I think when you put those three together, drive-up, pick-up and Shipt, we have got a great offering that our guest is clearly responding to. They are our cheapest fulfillment methods, so most profitable for Target. They are our fastest and we really see guest adoption taking off. So we are excited about the combination there.

Brian Cornell

And so, Robby, as we noted during our prepared remarks, same-day represents a third of our fulfillment and it's growing at a rate of 2X versus last year. And as we continue to build awareness through our marketing campaign, what we are doing from our in-store standpoint, our network standpoint as well as our digital communication to the guest, we are building awareness and we are seeing continued growth in that space. So we would expect those fulfillment channels, which obviously are our most profitable way to fill digital orders, to continue to grow over the balance of the year.

Robby Ohmes

And then I apologize if I missed it, but what number roughly your range should we be assuming for digital growth for the year out?

Brian Cornell

Robby, it's something that we do not provide guidance around. But what we have said for a number of years now is we expect to outgrow the overall industry by at least a rate of 2X. And as you have seen recently, we have been growing at three times the average rate of the digital growth in the industry.

Robby Ohmes

Great. Thanks so much.

Brian Cornell

Thank you. I appreciate it.

Operator

Thank you. The next question comes from Peter Benedict with Baird. You may go ahead.

Peter Benedict

All right. Thanks guys. Maybe a question for John. Can you give us a little more color on the store operating model that was kind of rolled out here? Just curious, any more detail you can give us on how the operations are changing, either front-end or back-end? Just curious what you can add there?

John Mulligan

Yes. This is a journey the store team has been on for several years and really around raising our level of service in the stores. The biggest change around the actual operating model itself, historically, we kind of had a jack of all trades model. You would be a cashier day, go do price change, go do some planogram sets, whatever we needed you to do in general. Today, we have gotten far more specialized.

So people in the food area actually can speak about perishables. They are doing the ordering. They are responsible for that area. They are responsible for the out-of-stocks. Same for beauty. They can talk to our guests about beauty. They are in that area all day long. It's the only area they work in. They are responsible for the inventory that sits in the back room related to that area and keeping the floor full and interacting with our guests.

In apparel, more style, right. Visual merchandisings, people who can make the great products that the merchants are developing look great in the store. And in electronics, lots of product information. So a significantly higher level of expertise across the store in the categories where we need it.

And then across the rest of the store, places like essentials and some of the dry goods, just keep it full all day long. That's your job. Keep the store full. And so we are excited about actually implementing that across the chain this quarter. The teams continue to work through that. But the early results are very positive.

Peter Benedict

That's great. That's helpful. Thanks John. And then maybe for Mark, just there's been a number of own brand introductions over the last year or two, a very healthy pace. How do we think about that going forward? Does that continue? Or have you guys reached a point here where you have addressed the areas and you are going to just see how a lot of these kind of play out?

Mark Tritton

Yes, Peter. I think we addressed this last quarter as well. I mean, we expect the rate of change and newness to abate, but still sustain a level of newness to create interest for our guest. I think one of the things we are most buoyed by out of this quarterly performance is, we had a high degree of own brand launches, specifically in our home areas last year and we had really strong traffic and growth. Yet, we are anniversarying that yet another quarter. And I think it just goes to show the building blocks that these brands built to us in terms of preference for Target, but also how they create sustainable growth and long term value.

Brian Cornell

Yes. So, Peter, we will expect to see the rate of new brand introduction slow, but Mark and his team are very focused on bringing newness and innovation to the own brands that we have launched over the last couple of years. So we will continue to make sure those brands are on trend. We bring newness and freshness to those brands that have been successfully launched over the last couple of years. And Mark and his team are really excited about some of the innovation we will bring to those lines in 2020 and beyond.

Peter Benedict

Makes sense. Thanks very much. Good luck.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Greg Melich with Evercore ISI. You may go ahead.

Greg Melich

Thanks. Really two areas I wanted to dig into a little bit. One is on tariffs. Just to clarify, it looks to us that for List 4 for you guys might be 80% of what you import or as you would have seen some experience from Lists 1 to 3. Is that the right sort of mix 80/20 is to List 4 versus the first list? And then I had a follow-up on digital.

Brian Cornell

Greg, why don't we follow up with you offline. That number is overstated. We will circle back. But as we have said before, we have got a very balanced portfolio. Our sourcing teams have been working to diversify our network for a number of years now. But we will come back and try to address some of that offline.

Greg Melich

Okay. Fair enough. On the digital, I did want to understand a little bit more, just given the strength of the traffic about the nature of the customer. I see

REDcard has been sort of flat, but are you getting a higher spend per trip from people using same-day? Is it existing customers coming more frequently? Are you finding new customers as a result of this?

Brian Cornell

Greg, one of the things that we have highlighted now for several quarters is the strength in our traffic growth. And Cathy talked about the fact that in this last quarter, it is a record high two-year stack for traffic growth. So we are seeing our Target guests visit us more frequently, shop more categories. They are enjoying the changes we have made in the store experience, but they are also taking advantage of the convenient fulfillment options that we are offering.

So as we look at the profile of our guests, they are still shopping our stores on a regular basis, but now we also give them the convenience of ordering online and picking up in their neighborhood store. In over, now 1,550 locations, they can place an order and pull into our parking lot. We have Shipt shoppers that will deliver within a couple of hours to their home.

So we are seeing traffic and interaction and engagement with our brand continue to grow and I think it's that wonderful combination of a great store experience and the suite of fulfillment capabilities that we are now offering that's driving greater engagement and greater traffic and visits to our stores and to our site.

Greg Melich

Great. Well, congrats on that and good luck for the back half.

Brian Cornell

Thank you.

Operator

Thank you. The next question comes from Chris Mandeville with Jefferies. You may go ahead.

Chris Mandeville

Hi. Good morning. Just sticking with the digital conversation. Since you already referenced your performance versus expectations and gave us a little color right there from Greg's question, I guess I was just kind of curious about how same-day specifically is contributing to the comp? It was roughly, I think, 50% last quarter, now over 80%. Is there any way of breaking down the service modalities between pick-up, drive-up and Shipt and how they are contributing there? And then, Cathy, how did the service models in aggregate influence the margin in the quarter?

Brian Cornell

Well, I think we have said during the prepared comments that we are seeing honestly exceptional growth in our lower cost digital fulfillment options. And one of the things that John pointed out very clearly during our last Financial Community Conference is, as we shift our fulfillment from upstream DCs to our stores, we see our cost go down by upwards of 40%. When it moves to one of our same-day options, pick up in-store, drive-up or Shipt, we see a 90% reduction in that cost. So obviously, as we are seeing the acceleration of our same-day convenient options, more guests opting to order online and pick-up or use drive-up or Shipt, we are seeing the benefits of that flowing through our P&L.

Cathy Smith

Yes. So I was just going to add on, as we shared in the prepared remarks, we are seeing, because of that shift, almost half the pressure that we saw the same time a year ago on our gross margin. So we showed that 30 basis points of pressure for fulfillment and supply chain costs this quarter and that's almost half of what it was last year so we are seeing that movement and the adoption towards the same-day services are closer to the store.

Brian Cornell

I think it might be helpful if John go back and talk about some of things we are doing from a productivity standpoint and efficiency standpoint at the store level to make sure that as we fulfill those orders, we are driving even greater productivity and efficiency throughout our systems.

John Mulligan

Yes. I think the store teams have done an outstanding job of initially getting these services up and running and providing a great guest experience. That's the place to start always and that's what they did. I think since that time, as we have begun to roll, we have rolled these out and scaled them, the stores have done a great job going back, process reengineering, adding tools, adding technology to make all of it easier and faster for our teams.

And so we talked about just the pick for order pick-up and drive-up is 30% more productive this year than it was. Across the entirety of ship from store, it is 30% more productive than it was. And the stores we continue to work on additional ways to be more productive to add technology, potentially add some additional automation in the back of the house to help them become more productive.

So while we love the shift to the same-day experience, because that is net better economics, we are also working hard within each one of those services to optimize the unit economics and so great progress by our stores teams.

Brian Cornell

Operator, we have got time for one last question.

Operator

Thank you. Our last question comes from Michael Lasser with UBS. You may go ahead.

Michael Lasser

Good morning. Thanks a lot for taking my question.

Brian Cornell

Good morning Michael.

Michael Lasser

Good morning Brian. Could you unpack the gross margin commentary about merchandising efforts to optimize cost, pricing, promotions and assortment? And the reason why is because I think there are questions about the sustainability of those factors. It does seem like you are expecting those to continue to drive benefit, given your commentary around gross margin in the third quarter.

Cathy Smith

Hi. I will start and Mark can add on to it. So first off, we had a terrific performance across the board by our team. So our merchant team from assortment to cost to price to promo, they managed the business throughout the entire quarter from the beginning of the quarter with Vineyard Vines through back-to-school, back-to-college with the cyber event in the middle. So amazing performance across the board. And by the way, we have got tremendous plans for Q3 and Q4 as well.

So I would tell you that they are sustainable type of efforts that we continue to do. And then we got a little bit of favorable mix with the strength of the apparel categories and little softening of the growth of toys and baby as we have now anniversaried the Toys "R" Us and Babies "R" Us exits. And so the combination of those gave us that really strong performance in gross margin this quarter.

Michael Lasser

Thank you for that.

Mark Tritton

Just to add, Michael, I mean, clearly our own brand strategy is working in the margin contribution as a benefit there. But I think that the agility and strength that Jill Sando and team brought to the apparel business in the quarter in terms of inventory management, markdown management and sales and share gains is definitely one of those strong contributors in our mix. But overall, everyone pulled weight and we had a great quarter.

Brian Cornell

So Michael, it's probably a good place for me to wrap up. And really complement Mark and his entire merchandising team for the work that they have done. We have been talking now for multiple years about the benefits of our multi-category portfolio. And I think we are seeing that play out each and every quarter. It was a couple of years ago where we were talking about the investments we made to be priced right daily. And our guest is responding to that and that's certainly flowing through in the gross margin.

So I think the exceptional work that the team has done to strengthen all facets of our portfolio, both our style and essential categories, the strength we are seeing across our multi-category portfolio, certainly, the market share gains we are seeing in important categories like apparel and combining that with the everyday value we are offering to our guests being priced right daily is contributing to the margin stability and improvement we are seeing in recent quarters.

So complements to Mark and the entire merchandising team for the work that they have done. But the guest is recognizing it and I think again it's contributing to the traffic gains we are seeing in our stores, the increased visits to our site and the flow-through that we are seeing throughout our P&L.