Good morning, everyone, and thank you for joining us on our Second Quarter 2017 Earnings Conference Call. On the line with me today are: Brian Cornell, Chairman and Chief Executive Officer; John Mulligan, Chief Operating Officer; Mark Triton, Chief Merchandising Officer; and Cathy Smith, Chief Financial Officer. In a few moments, Brian, John, Mark and Cathy will provide their perspective on Target’s second quarter performance and our plans and priorities going forward. Following their remarks, we’ll open the phone lines for a question-and-answer session.

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

With that, I’ll turn it over to Brian for his thoughts on our second quarter performance and our priorities going forward. Brian?
Brian C. Cornell  -  Target Corporation  -  Chairman and CEO

Thanks, John. Good morning, everyone. We are very pleased with our second quarter performance, which gives us increased confidence that we are focused on the right long-term strategy. Our team is energized and remains on track to deliver the ambitious agenda we laid out for the year, including the physical transformation of more than 100 stores in 2017 on the way to transforming more than 600 stores over a 3-year period; nearly doubling the number of small-format stores this year in support of our goal to open more than 100 new stores in dense urban, suburban and college campus neighborhoods over a 3-year period; development and rollout of digital capabilities that will continue to drive Target's digital sales growth in excess of the industry; completely transforming our supply chain from end-to-end; creating a smart network of stores and distribution facilities that will allow fast, reliable fulfillment regardless of how our guests choose to shop; rejuvenating our own brand portfolio by launching 12 brands over a 2-year period, replacing brands that represent more than $10 billion of our current sales volume; investing in systems, training and additional labor hours in our stores, enabling our team to provide an even better experience for our guests; and enhancing our value perception among consumers by reducing promotions and highlighting the right everyday pricing in key categories. Later in the call, John, Mark and Cathy will provide more details on our efforts to advance each of these priorities.

On our last conference call, I mentioned that beyond our focus on advancing our long-term priorities, we need to have equal focus on strong execution in every channel every day. That's why we're really proud of the execution of our team in the second quarter as they delivered better-than-expected performance in a continuing challenging environment. In particular, second quarter traffic, which was up more than 2%, was much stronger than our expectations and better than recent trends. And the strength was broad-based across the country, across categories and across channels. And while the consumer and competitive environment remains choppy, better-than-expected performance occurred throughout the quarter and wasn't limited to a short period within the quarter.

With better second quarter traffic, we saw improved performance across each of our 5 broad merchandising categories: Apparel, Home, Food and Beverage, Essentials and Hardlines. 4 of those 5 saw comp increases in the second quarter while comp sales in Food and Beverage were flat. However, given continued competitive and deflationary pressure in Food, we're pleased that we're seeing early signs of progress. Specifically, we saw really strong positive comps in adult beverages and produce in the second quarter, both categories in which we've identified opportunities and focused on improvement. The positive response from our guests demonstrates that we're making progress and we're taking additional steps to build on that momentum over time.

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

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

To build on this success, the team is rapidly testing and rolling out additional fulfillment options for our guests. This includes Target Restock, our next-day delivery option for everyday essentials, that we recently rolled to Twin Cities REDcard holders. It includes same-day delivery, which we began testing in our TRIBeCa store in the second quarter. It includes an early test of curbside fulfillment, which we recently began testing with Twin Cities team members and which we'll expand to a guest-facing test in the third quarter. And of course, our efforts include the expansion of ship-from-store locations, in-store pickup capabilities and our work with third-party providers to speed up ship times from our stores and distribution facilities. In each of these efforts, the team is moving quickly, more quickly than ever before, to roll out, test and iterate and expand where we see positive results. We're really excited to see the engagement of our team and the collaboration occurring across our operations, which allows these tests to move quickly. And we intend to continue moving quickly in the months ahead.
Another area where we've increased our speed is in the development and rollout of new exclusive brands. With last year's rollout of Pillowfort and Cat & Jack in Kids, we've demonstrated the power of reinvention in categories that were already performing well. Specifically, both of these new brands grew double-digit comps following their launch last year. Regarding the Cat & Jack brand, we have long said that it was on pace to exceed $1 billion in sales in its year. But performance has actually exceeded those expectations. Cat & Jack just crossed the $2 billion mark only slightly more than a year after its launch. Based on the success of those brands, our team took on the ambitious goal of launching 12 additional new brands before the end of next year, and those plans are coming to life.

At the end of May, we launched Cloud Island, an infant brand, which we developed in partnership with our guests. And like last year's new brands, Cloud Island has generated double-digit comp increases in the period since the launch. In July, we launched a new maternity brand, Isabel Maternity, and announced plans to launch 4 more brands in the third quarter crossing women's apparel, men's apparel and home. I also want to comment on our recently announced decision to partner with Casper in advance of the Back-to-College season. I've spent some time with the leadership of Casper, and I've been really impressed with how they think long term and focus on outstanding execution on behalf of their customers. Their brand and products are a great fit with the Target brand. And we're proud to be featuring their products online and in our stores, including a couple of exclusive items they've developed only for Target.

This relationship is the most recent example of our ability to differentiate our assortment while helping outstanding brands extend their reach. During this period of rapid transformation in retail in which many others are shrinking, we'll continue to look for ways to partner and deliver incremental growth for high-quality brands while delivering differentiation and value for our guests. As we look ahead, we're committed to continued progress against our long-term goals. And we expect the environment will continue to be challenging. The pace of change in the consumer and competitive environment doesn't show any signs of slowing down. And we're well positioned to emerge as one of the winners in retail.

It starts with the underlying health of our business, a business that generated profits of nearly $700 million in the second quarter. Our business is backed by amazing assets, including our team, our network of stores and distribution centers, a unique merchandise assortment and a deep relationship with our guest. Beyond those assets, we have a very strong balance sheet and operations that generate a lot of cash, providing us the flexibility to undertake the ambitious 3-year transformation we first laid out at our Analyst Meeting in February. And we continue to look for ways to move faster. In February, we announced our plans to complete 250 store transformations in 2018 on top of the 100-plus we're on track to complete this year. However, based on our success so far and the hard work of our real estate and construction teams to grow our capabilities quickly, we now believe we can accomplish more than 300 store remodels next year.

While the scope of our transformation is large, we remain focused on what has made Target an outstanding retailer over the long term, all the way back to our first store in 1962. The key for us is embracing the power of "and", which makes us unique among our competitive set. When we're at our best, our model delivers the best of both mass and specialty retail. We deliver inspiration and convenience. And we invite our guests to expect more and pay less. Because we've delivered on all of those dimensions over time, we have developed a unique, emotional relationship with our guest. And we believe that relationship is positioned to thrive in the new era of retail. If we continue to offer our guests inspiration and aspiration, differentiated merchandise and experiences and deliver convenience, reliability and great everyday prices, we'll continue to standout and succeed in a crowded retail environment.

One way to see how the best of Target comes together is to visit one of our exciting, new small-format stores we've been opening across the country. I visited our new store that recently opened on the USC campus. And despite my loyalty as a proud UCLA graduate, I couldn't help being excited by what I saw. The store is already quite busy, even though most of the students have yet to return from summer break. Beauty, Baby, Food and Beverage are all selling well. And the store team is quickly evolving their assortment based on feedback from a diverse set of guests. It's truly inspiring to see the team interact with our new guests at an exciting, new shopping environment. And I'm proud of what they do every day.

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

**John J. Mulligan - Target Corporation - COO and EVP**

Thanks, Brian. Across all the operations team, we are focused on modernizing Target's network to create a complete, seamless, efficient and reliable menu of fulfillment options for our guests. And while we are still in the early stages of a multiyear journey, the team continues to move with unprecedented speed, developing skills and processes that allows us to develop, test and iterate much more quickly than we have in the past.

Some of our fulfillment capabilities are already well developed. And in those cases, the team is focused on finding ways to increase our speed, reliability and reach. At the other end of the spectrum, we're in the early stages of testing completing new fulfillment options for our guests. In those situations, the work is fully focused on learning from our guests and vendor partners, understanding what is most important to our guests and beginning to evaluate reliable, repeatable processes that will allow Target to fulfill guests' rapidly evolving needs and expectations.

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

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

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

And that, in turn, has allowed us to offer new fulfillment options like Target Restock. This service allows guests to order a shopping cart-sized box filled with items chosen from an assortment of more than 15,000 essential items like coffee and paper towels and have it shipped to their house for a fixed $4.99 delivery fee. Because these orders are fulfilled from a nearby store location, we can promise that any Restock order placed before 2 p.m. will arrive at a guest's home on the following weekday. You'll recall that we rapidly developed this capability at a team member test in the first quarter. And we moved to the next stage of the test in the second quarter, rolling out to Twin Cities REDcard holders in late June.

Operationally, this guest-facing test has gone well. And as a result, we just rolled out Restock to the Dallas and Denver markets. And we plan to expand into another 7 markets before the holidays. With Restock available in these 10 markets, we'll already be reaching 1/4 of the U.S. market less than 6 months from the day we launched the test. Beyond geographic expansion, we began offering Restock to non-REDcard holders in all 3 test markets. We'll be extending the delivery window by adding Saturday delivery. And we'll remove the cutoff for next-day delivery later, beyond the current 2 p.m. cutoff. And given the strong store execution we've seen so far, we'll begin ramping up communication and marketing efforts in Restock markets, which will increase awareness in order volume, providing visibility into the capacity of our store team to reliably process higher-order volumes.

Beyond our internal fulfillment capabilities, our team is also working with transportation partners to improve the speed and cost-efficiency of last-mile delivery. To supplement these efforts, this week, we announced our decision to acquire Grand Junction, a San Francisco-based transportation

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technology company. Grand Junction has developed proprietary technology tools and has relationships with more than 700 carriers, allowing retailers to choose the most efficient option for last-mile delivery on an individual order. While this acquisition is not expected to have a material direct impact on our financial results, we are excited to bring Grand Junction into the Target team and believe their model will help accelerate our progress in delivery speed, efficiency and a high level of service to Target's last-mile fulfillment.

We worked with the Grand Junction team on the test of same-day delivery in our TriBeCa store, which launched in the second quarter. In this test, guests at checkout can choose to have their purchased items delivered to their home on the same day in a delivery window of their choice. We’ve been pleased with the results of the test and have gained some useful insights from the guests’ response to the offer. For example, the value of the average basket for these same-day delivery orders is more than 6x the store average at the TriBeCa store and contains nearly 4x the units compared with the store’s typical basket. Also notable, Home is the most common category in same-day delivery transactions, ahead of Essentials and Food and Beverage. And importantly, Net Promoter Scores for the same-day delivery service have been higher than for the TriBeCa store overall, demonstrating the quality of execution so far. Based on these encouraging initial results, we plan to expand this same-day delivery test to several other New York City locations in the fall.

Of course, the most common mode of shopping is still overwhelmingly in our stores. So while we’re investing in new ways to leverage our stores for digital fulfillment, we are also interesting to bring a great store shopping experience to guests across the country. This includes our remodel program, in which we plan to transform the look and feel of more than 600 stores over a 3-year period. In support of this planned remodels in 2017, in the second quarter, we completed 42 remodels, bringing us to a total of 63 so far this year. And while we are obviously seeing a range of outcomes on an individual store level, we are continuing to see average sales lifts in line with our plan to deliver a 2% to 4% sales lift in remodeled stores. And as Brian highlighted, the team is doing a great job of scaling up our capacity, which will enable a faster pace of remodels in 2018 than we previously expected.

Beyond remodels, our team is delivering on our plan to roll out more than 100 small-format stores to dense urban, suburban and college campus environments over a 3-year period. For 2017, we are still on track to deliver our plan to add nearly 30 new small-format stores. In July, we opened 9 new small stores across the country on top of the 4 we opened in the first quarter. While we have only been opened a few weeks, our July openers have been particularly strong out of the gate. And as Brian highlighted, the guest response had been phenomenal. For the set of small-format stores that have been opened for more than a year, we’re continuing to see sales productivity more than double the company average. And these stores have been delivering high single-digit comp increases so far in 2017.

So clearly, our team has been busy transforming our assets and developing new and more efficient ways to fulfill guest demand. But as Brian mentioned, we also need to focus on execution every day. Even though strong execution may not always grab the headlines, it has a real impact on our performance. An outstanding example is our work to improve the fundamentals of our digital business, which has dramatically reduced the number of guest-centered contacts related to digital transactions. Specifically, in 2017, guest contacts per digital order are running 30% lower than last year. This dramatic reduction is the result of concerted effort by our team, who looked end-to-end at the digital guest experience, all the way from our site and our apps to ordering, purchasing and fulfillment. Based on this foundational work, the team has worked methodically to reduce friction and pain points. And you’re seeing the benefit both in our contact statistics and in our digital traffic and sales.

Another example is our partnership with CVS. As we outlined last year, the conversion of pharmacies created some inevitable friction for our guests, driving an initial decline in script count in our stores. Since the conversions began, we have been working closely with the CVS team to minimize the guest impact and build awareness of the benefits CVS can provide. As a result of our joint efforts, guest experience scores in our pharmacies have been climbing since the CVS conversion and are now running well ahead of our pre-conversion levels. And we’ve been seeing the impact in our business. In the second quarter, comparable pharmacy script counts turned positive for the first time in more than a year. While this is encouraging, we know we have more opportunities to build on this momentum. And we are working with CVS on marketing and guest engagement plans for the fall season.

Execution in our stores has been a big focus this year. And we're investing in hours, training and technology to allow our store team members to elevate the shopping experience. Depending on a store’s volume and buying patterns, we’re adding hours to enhance the order pickup experience and our visual merchandising teams in Apparel and Home, in Beauty and in Food and Beverage. And given all the brand launches that Mark’s team is planning for the fall, we have invested in training and materials to help our store teams best present and sell these new lines to our guests.
Across all of our stores, we're asking the team to increase their engagement with guests and ensure they're finding all the items on their list. To support this effort, we're rolling out a new tool that will help our store teams locate items, colors and sizes not available in their store and allow them to sell those items directly to guests right on the sales floor. We're in the very early stages of rolling out this new capability and guest awareness is still low, but we are already gaining some initial insights. Not surprisingly, over half the activity on these devices has been related to Apparel, where the ability to find additional sizes and colors creates particular value for our guests.

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

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

Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

Thanks, John. As you've been hearing from many of our industry peers, this continues to be a challenging competitive and consumer environment. That's why we are particularly pleased by the ongoing progress we saw in the second quarter, when we gained further momentum in the areas that we're already performing well and saw improvement in the areas where performance needed more focus. And our growth has come from both stores and digital channels, wherever our guest wants to shop us.

From a market share perspective, we saw broad-based market share gains across all our discretionary categories. In Hardlines, comparable sales grew between 3% and 4% in the second quarter, the strongest performance we have seen in 10 years. Growth in this area was broad-based, including double-digit growth in both video games, driven by Nintendo Switch, and Apple within Electronics. Toys grew more than 3% with board games continuing to be a strong highlight. This is an area where we already enjoy a leading market share position but continue to grow and take further share due to our focus on innovation and differentiation within our assortment.

Our Apparel and Home categories both grew sales and market share in these tough markets. In Apparel, growth was widespread across subcategories as guests responded to fashion and newness, all underpinned by value through great priced-right daily items. We were particularly pleased with the ongoing positive performance in Kids, which continues to benefit from last year's launch of Cat & Jack and is now achieving strong year-on-year sales growth, and in our strong swim business. Like our performance in board games, we came into the year with the #1 market share in swim. And we extended our lead to become the clear destination for swim in the U.S. In Home, digital was an important growth driver. And we saw particularly strong performance from our Threshold brand. We're also very pleased with the performance of our seasonal businesses, from greeting cards to outdoor furniture. Within the Seasonal event moments, our Fourth of July holiday was strong as we quickly leveraged guests and business insights from Memorial Day.

In Essentials, comp sales were up almost 1%, benefiting from the launch of our Target Run and Done campaign that began in the first quarter. We are pleased with the response from our guests, specifically with awareness and return on ad spend for this campaign, where results are higher than average. The top 2 messages guests recall from the campaign are that, "Target is convenient", and "I can fulfill all of my needs at Target", which were our core campaign goals. Essentials are also seeing the early benefit from our work to improve our value perception. Specifically, when we are priced-right daily on key items in Essentials, we are seeing increased traffic and unit sales trends.

As Brian mentioned earlier, comp sales in the Food and Beverage category have stabilized and were flat in the second quarter. We are seeing improvement based on our work to improve freshness and reliability as well as our work on value perception. In produce, we saw high single-digit comp increases in the second quarter, driven by even stronger growth in organics. And in our adult beverage, we saw ongoing double-digit comp growth, driven by assortment and display enhancements we've been rolling out across the country. Importantly, we continue to build Food and Beverage expertise on our team. Following the hiring of Jeff Burt to lead Food and Beverage in merchandising at the end of the first quarter, we announced that we've hired 2 members of his team earlier this week. Looking ahead, Jeff and his total team are focused on building on recent momentum. We know we need to enhance our assortment of convenient options for our guests, food that's ready-to-eat, ready-to-heat or ready-to-cook and save families time and money. In addition, we're focused on enhancing our exclusive brand assortment in Food and Beverage while ensuring we are priced-right daily on key opening price points.
While overall, we have much more to accomplish in the third quarter, our work to improve value perception across all of our assortment is already beginning to have an impact. Specifically, surveys are showing that consumers are noticing Target’s investment in price and value. And we saw a much stronger mix of regular-priced selling in the second quarter as we sought to simplify our promotions, clarify our voice and bring great priced-right daily items into focus. And it’s working. In fact, our second quarter balance of regular and promotional sales was consistent with levels we haven’t seen since 2012, well before our credit card data breach that changed our promotional cadence and stance. Also encouraging was the fact that our unit share in key categories grew more quickly than dollar share, which is a key leading indicator of the impact of this work.

At a high level, our second quarter average ticket also reflects the impact of this work. At first glance, reporting a slight decline in average ticket might not sound like good news. But when it’s more than offset by an increase in traffic, the picture is more positive. As we dig into the drivers, the change in basket reflected 2 key factors. The first was a reduction in general incentive offers, which were replaced by better daily value pricing and more category-focused discounts. The second was a meaningful increase in the number of quick trips and fill-in trips we saw from our guests. As we mentioned last year, we saw an opportunity to more appropriately balance between stock-up trips and these quicker, smaller trips, so we are pleased to see our strategy taking hold and generating both trips and conversion. This work on value perception is about ensuring we are priced-right daily on key items while delivering more thoughtful and effective promotions throughout our assortments. In many categories, this means we’re reducing our everyday pricing and communicating with much more clarity, building confidence among our guests. We’ll expand the scope of this work in the third quarter, and we will continue to measure and iterate based on the response.

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

In addition to Cloud Island, which launched in May and is already comping double digits, we launched Isabel Maternity in July. This new brand features 120 key pieces designed to make every stage of maternity easy, comfortable, stylish and affordable with a focus on fit, function and fashion. And this new brand is already posting strong growth. And as we move into September, we’re rolling out 2 new exclusive apparel brands. In women’s, we’re launching A New Day, an apparel and accessories brand featuring a strong feminine aesthetic through modern prints and patterns with a focus on building confidence through stylish, seasonal and basic items and stories that provide the ultimate wardrobe versatility. And in men’s, we’re launching Goodfellow & Co., which brings a new modern interpretation of classic looks focused on the strong foundation of core items based on insights our guests tell us what they want: great quality, fit and fabric.

But there’s more in store. In September, we’ll also launch Project 62, a new home brand based on modern design that is thoughtful and approachable. We also built this brand from our Guest Insights to capture their growing demand for modern design with a focus on solving the challenges of urban living, including the need for easy mobility based on potential frequent moves. Items incorporate efficiency, simplicity and great design that make urban environments both highly beautiful and functional. Shortly after in October, we’re excited to launch JoyLab, a new women’s athletic fashion apparel brand. Items were designed based on emerging street styles that inspire fitness through fashion and building a community based on style and wellness, taking you from crunches to brunches. Given the investment in developing this portfolio of new brands, we plan to support these launches with meaningful 360-degree investments in the way only Target can: in marketing, in digital, on social media, in store experiences with fixturing, mannequins and signage and in training for our store and digital teams. It will be hard to miss the amount of newness you’ll see during the third quarter. And we expect our guests will be excited to discover that there is indeed more in store.

And our product design and development, manufacturing, merchandising and marketing teams have been incredibly agile, having begun their work on these new brands less than 10 months ago. It’s amazing what they have been able to accomplish together in this time by keeping truly aligned to our strategic choices. It adds up to a vast body of work. And we can’t wait to see all of these new items in our stores and online. Our success last year in Pillowfort and Cat & Jack provided the proof of concept and gave us the confidence to begin work on these new brands. Both of those new Kids brands saw double-digit comp’s in the year following their launch and they are both still growing in their second year while building trips, category growth and store basket. And as Brian shared, Cat & Jack is now a $2 billion brand based on sales volume in the last 12 months through July of this year, exceeding our initial expectations.
Of course, we haven't forgotten the Back-to-School and Back-to-College key seasons, which play a huge role in our third quarter results. In Back-to-School, comps and market share have grown for 10 years straight. And we're focused on extending that record. We continue to invest in digital to support Back-to-School, including our School List Assist site that provides guests a convenient way to access their child's supply list and easily order any or all of those items to be delivered to their home. More than 1 million lists are already available on the site, well ahead of last year. And sales through the list site have been running 4x higher than a year ago. When students go back to college, mom plays a huge role in making everything happen. So we've made sure this year's marketing speaks to moms as well as students. And for those campuses that aren't lucky enough to have one of our new small-format stores, we're partnering with Barnes & Noble College, which operates nearly 800 college stores around the country, to offer the Target assortment to more than 5 million students.

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

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

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

Catherine R. Smith - Target Corporation - CFO and EVP

Thanks, Mark. In the second quarter, our traffic sales and financial performance were all better than expected. Notably, the upside to our expectations was broad-based across the country, across channels and in all 3 months of the quarter. Second quarter comparable sales increased 1.3%, driven by a traffic increase of 2.1%. We are particularly pleased to see this growth in traffic, which reflects strong execution by our team and the early benefit of the work we are doing to transform our business.

Our second quarter adjusted EPS of $1.23 was flat to last year. GAAP EPS was $0.01 lower than adjusted EPS, reflecting some small unfavorable tax items not related to our current operations. Both the GAAP and adjusted EPS lines reflect about $0.07 of favorability, resulting from the net tax effect of our global sourcing operations. This favorability was included in the adjusted EPS calculation because it reflects a structural benefit to our tax rate resulting from our operations. The amount recorded in the second quarter reflects the year-to-date benefit of our global operations on our tax rate. And we expect to recognize an ongoing benefit in the range of $0.02 to $0.03 in both the third and fourth quarters as well.

Our second quarter gross margin rate was down about 40 basis points to last year, driven by increased fulfillment cost and the impact of our efforts to improve pricing and promotions. Merchandise mix had a slightly positive impact on our gross margin rate in the quarter, reflecting healthy performance in our signature businesses, balanced by broad-based strength in Hardlines. One note, beginning this quarter in our financial reporting, we have reclassified depreciation expenses associated with our supply chain, moving them into the cost of goods line on our P&L. This elective reclassification, which resulted from an internal review of how we classify depreciation expense and discussions with the SEC during one of their routine reviews of our filings, is reflected in our second quarter 2017 reporting and we've reclassified prior year results as well.

Obviously, this reclassification has no impact on our sales, EBIT, net earnings or EPS, but it results in equal and offsetting reductions to both our gross margin rate and depreciation and amortization expense rate. To provide greater clarity, this morning, we posted a document on our Investor Relations website that shows the impact of this reclassification on our quarterly gross margin and D&A rates over the last 3 years. That document shows that the reclassification impact has been either 30 or 40 basis points reduction in our quarterly gross margin and D&A rates throughout that entire 3-year period. And one final note, with this reclassification, we will no longer include EBITDA metrics in our segment table.
On the SG&A expense line, we saw a year-over-year increase of about 50 basis points in the second quarter. This increase was driven by compensation costs, reflecting the store labor investments that John highlighted earlier as well as higher bonus expense, along with impairments related to anticipated store closures and our work to transform our supply chain. These costs were partially offset by the benefit of continued cost discipline throughout the organization. As I mentioned in one of our calls in 2016, for the last couple of years, we have been working to create a culture of thoughtful cost discipline. And I am really pleased to see the ongoing benefit of that effort. I want to pause and thank the team both for their passion to transform our company and for their thoughtful cost management, which is helping to fund our investments in this transformation.

At the end of the second quarter, our inventory was more than 4% lower than last year. This is vivid confirmation of the benefit of the work of both the operations and merchandising teams to reduce unproductive inventory and speed up our supply chain. These efforts are driving continued strong in-stocks and sales growth on a smaller base of inventory. Compounding that benefit, we are also beginning to see the impact of our work with vendors to ensure that Target’s payment terms are in line with industry norms, which drove an increase in our payables in the second quarter. The combined benefit of these two factors was an increase in our inventory leverage of more than 10 percentage points compared to last year. The working capital benefit of this leverage improvement is substantial and will provide additional cash to support our transformation. In fact, we are now forecasting 2017 cash flow from operations will be higher than last year despite the operating income reduction we have planned for the year.

So now as always, I want to pause and reiterate our capital deployment priorities, which have remained consistent for decades. We first invest capital into our business on projects that support our strategic and financial objectives. Second, we support our dividend and look to extend our record of raising the dividend annually since 1971. And finally, we repurchase our shares within the limits of our current A credit rating.

In the second quarter, we devoted more than $700 million to capital investment, paid dividends in excess of $300 million and repurchased just under $300 million of our shares. For the year, we continue to expect that our CapEx will be in the $2 billion to $2.5 billion range. However, with the increase in 2018 remodels Brian mentioned earlier, we now expect next year’s CapEx will be $3 billion or more, somewhat higher than our previous expectations. This highlights our continued discipline regarding investment deployment. We will increase investment where we have seen solid returns to accelerate our transformation and long-term growth.

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

Now let’s turn to our expectations for the third quarter and full year. As we look ahead, we will continue to move with urgency but plan prudently. Of course, we are facing a tougher prior year comparison in the third quarter, and we continue to expand the scope of our pricing and promotion work, which may create additional headwinds for the rest of the year. As a result, we expect our third quarter and fourth quarter comps will be within the range we established across the first 2 quarters of the year. For the full year, we expect that our comp will be in the range around flat, plus or minus 1%.

In the third quarter, we are planning for a decline in EBIT of approximately $230 million. More than half of this decline will be driven by D&A as we recognize accelerated depreciation related to the anticipated remodels we’re planning for 2018. The remaining EBIT pressure will reflect this year’s operating margin investment to support our transformation. Altogether, we are expecting GAAP and adjusted EPS in the $0.75 to $0.95 range in the third quarter. Based on our better-than-expected performance in the first half of the year, we are now raising our full year GAAP EPS expectation to the range of $4.35 to $4.55, representing an increase of about 11% from our prior guidance range. Adjusted EPS is expected to be about $0.01 lower than GAAP EPS, reflecting the tax matters excluded from adjusted EPS in the first half of the year.

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

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

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Brian C. Cornell - Target Corporation - Chairman and CEO

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

That concludes our prepared remarks. Now John, Mark, Cathy and I will be happy to take your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian C. Cornell - Target Corporation - Chairman and CEO

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

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Operator

Our first question comes from Matt Fassler with Goldman Sachs.

Matthew Jeremy Fassler - Goldman Sachs Group Inc., Research Division - MD

I have two brief questions for, I think, for Cathy. The first relates to the implied fourth quarter guidance, which seems quite subdued relative to a tough fourth quarter a year ago despite the fact that I believe you have an extra week in the quarter, and correct me on that if I'm wrong. And then the follow-up to that is just that you mentioned D&A moving higher. So if you could just give us some color on the magnitude of the move you'd expect of the restated D&A numbers.

Catherine R. Smith - Target Corporation - CFO and EVP

With regards to both third quarter, fourth quarter and full year remainder guidance, as we said, we'll continue to move with urgency but plan prudently. And I think that's what you should expect from us. We are finding every time we see results coming from our investments, we're choosing to continue to invest to accelerate our transformation. And so that's how I would think about the backside of the full year. With regards to the reclassification we did on the supply chain depreciation expense, we posted a great schedule, John and the team posted today to the IR website, gives you 3 full years by quarter. You can see the bottom line, it's 30 to 40 basis points a quarter change. And you would see that -- the shift from D&A to gross margin.
Matthew Jeremy Fassler - Goldman Sachs Group Inc., Research Division - MD
We have that. But just in terms of the -- I think you said you expected D&A to be increasing at a faster rate as you accelerate the depreciation associated through upcoming remodels.

Catherine R. Smith - Target Corporation - CFO and EVP
Yes.

Matthew Jeremy Fassler - Goldman Sachs Group Inc., Research Division - MD
Can you try to contextualize the expected increase, how much the pace of D&A growth will change?

Catherine R. Smith - Target Corporation - CFO and EVP
Yes, so it is. It's related to our increasing store remodels as we accelerate some of the depreciation there. And for the full year, I was just quickly looking here, we're -- you'll see a little bit of continued pressure coming through, so it will pick up. But we'll follow up with some specifics if you need it.

Operator
The next question comes from Chris Horvers with the JPMorgan.

Christopher Michael Horvers - JPMorgan Chase & Co, Research Division - Senior Analyst
You had a very strong Electronics quarter. The Switch, which has been a huge hit, double-digit comps in that. And then Apple iPad sounded like they're bouncing back. So it seems like there's a material contributor to same-store sales. How do you think about the sustainability of this benefit? Presumably, the Switch moderates. But do you think the Apple benefits on tablet compares and the new phone? And what other categories do you think could come in and pick up for what the Switch has provided?

Brian C. Cornell - Target Corporation - Chairman and CEO
Mark, why don't you provide some insight into our view on Electronics?

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

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

Christopher Michael Horvers - JP Morgan Chase & Co, Research Division - Senior Analyst

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

Catherine R. Smith - Target Corporation - CFO and EVP

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

Operator

Our next question comes from David Schick with Consumer Edge Research.

David Adam Schick - Consumer Edge Research, LLC - Director of Research, and Retail and Luxury Analyst

I really wanted to simplify into one question all these different tests and get at one issue, whether it’s the roll -- test of curbside and same day, whether it’s the rollout of in-store, all the work you are doing. Could you talk about all the new initiatives? And is it -- does it have more traction with existing customers, anything you can share, existing customers, capturing back more of their wallet? Or is it new customers that are new to Target as you go through these new initiatives?

Brian C. Cornell - Target Corporation - Chairman and CEO

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

David Adam Schick - Consumer Edge Research, LLC - Director of Research, and Retail and Luxury Analyst

Just as a sort of an add-on to that, one of the things over the last decade that some retailers run into with all these attempts to reengage, a lot of which are very exciting, is either overdoing it or overcomplicating it. How are you guarding against at the store level the associates not being overwhelmed by these initiatives and managing through that?
It's a very important question. And I'm going to turn it over to John here to build on that. But we're trying to make sure we are very, very focused right now and that we have the guest in mind first, that the initiatives that we're bringing forward are guest-centered. But importantly, that we have the right focus on execution each and every day. And I think what we saw in the second quarter is a by-product of our focus on execution each and every day in our stores, online, in our supply chain. And I think you're starting to see that focus really connect with the guests.

John J. Mulligan - Target Corporation - COO and EVP

Yes, I think the only thing I'd add, you're 100% right about the focus. I think the key challenge there for us is to continue to take work that is not guest-facing out of the store. And guest-facing work there is, like we said, the investments we're making in Food and Beverage, in Beauty, in visual merchandising. That includes things like order pickup and shipping from the store. But there are opportunities everywhere else to pull work out of the store. And I think the stores' teams have done a great job optimizing within the box. We need to continue to optimize upstream to help them take work out. And that's a lot of the testing we're doing today. Now I didn't talk a lot about it, but we have test going on in multiple parts of the company focused on taking work out of the store, so they can be focused on the guest.

Operator

Our next question is from Robbie Ohmes with Bank of America Merrill Lynch.

Robert Frederick Ohmes - BofA Merrill Lynch, Research Division - MD

Brian, you guys have been mentioning the environment challenges, and we're seeing the very aggressive promotions out there in categories like Apparel. Your store traffic improved a lot this quarter. I'm just curious, are there -- can you give us any color, are you picking up more share from competitors' store closings than you would have thought? And then also as you shift more to EDLP while others are getting maybe more promotional, any insights from what you've seen so far in August that you can share with us on how all this is working out? And sorry, just to add on this also, and I don't know whether John Mulligan or Mark want to jump in on this, but as you pull back on the promos more, you shift more to EDLP, can you remind us where things like Cartwheel fit into that as you move forward and also how you see REDcard penetration playing out in your strategy?

Brian C. Cornell - Target Corporation - Chairman and CEO

So Robbie, there's 4 or 5 different questions there. And we'll try to unbundle each of them. But as Mark talked about during his prepared comments, during the second quarter, we saw very strong market share growth across a number of categories. We continue to see share growth in Apparel, in Home, in Hardlines. And one of the things that, I think, we felt best about in the quarter, and it's a by-product of the work we've done from a promote standpoint as we continue to see our businesses in Essentials shift back to regular-priced sales and the impact of our new marketing and advertising campaign, the Target Run and Done campaign, which has driven really positive reaction from the guests and accelerated our business in Essentials. So that was a real big highlight for us in the second quarter. And we've talked about this before. We're at our best when we balance both style and household essentials. And you're seeing that balance come to play in the second quarter. And we certainly are going to continue that over the balance of the year and into 2018. So it was a period of time where we feel good about the progress we're making as we pick up market share in many of our signature and style categories. We've seen growth in our Essentials businesses. And we'll build off of that as we go into the balance of 2017 and '18.

Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

Sorry, Robbie, around Cartwheel. Cartwheel remains a really viable promotional vehicle and guest engagement tool for us. And what we're doing though, in the simplification of our pricing message and creating great priced-right daily items, is we're using Cartwheel, but we're reducing the amount of stacking that's coming in. And that's really helping us to clarify and simplify our message to guests about what true everyday value is
as well as what's an exceptional promotion. So the rescoping of that has been tremendous so far. And really, our regular business is shining and our promotional business is rescoped in a great way.

Robert Frederick Ohmes - BofA Merrill Lynch, Research Division - MD

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

Brian C. Cornell - Target Corporation - Chairman and CEO

Obviously not.

Operator

Our next question comes from Bob Summers with Macquarie.

Robert William Summers - Macquarie Research - Analyst

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

Brian C. Cornell - Target Corporation - Chairman and CEO

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

Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

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

Operator

Our next question comes from Peter Benedict with Robert Baird.

Peter Sloan Benedict - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Mark, just was hoping you could expand maybe a little bit on some of the merchandising assortment changes that you're making in the consumable side of the business, the Food area, particularly in pet food. What's going on there? And anything to note there from a remodel perspective?
Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

Yes. Thanks, Peter. So let me start with pet. We announced this month the addition of Blue Buffalo to our assortment, which is the #1 brand in the U.S. and a really core assortment get. And so excited to add that into our mix, and we already have a lot of data from our guests who suggested they wanted to see that at Target. We also embarked on an agreement with BarkBox. So really refocusing our accessory and our total assortment of doing business inside pet. So an exciting uptick there because that brings further guest trips and conversion. Around the Food and Beverage area, in terms of general assortment, we're still working on there and more to follow.

Peter Sloan Benedict - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

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

Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

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

Operator

Our next question is from Brandon Fletcher with Bernstein.

Brandon Fletcher - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

The only questions I have are essentially just on the pick for store concept. I just want to share a comment we had from an industrial engineer that was working for me a long time ago that it's about as efficient as a driver who takes 3 rights to take a left. There's a massive cost when you have people walk the store instead of it being your customers who walk back out on a simulated basis. I get incrementality. I get that you don't have to have the checkout cost and it offsets it a little bit. Is there something that you guys are confident on the operational side that will make pick from store the way you guys are doing it better than lots of other folks so that we don't face as much inefficiency? And similarly, will the remodels make those operational changes you think less difficult or more efficient in terms of cost structure?

John J. Mulligan - Target Corporation - COO and EVP

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

Brandon Fletcher - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

And so the micro fulfillment in the backrooms would be one of the benefits of remodels?
John J. Mulligan - Target Corporation - COO and EVP

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

Operator

Our next question is from Michael Lasser with UBS.

Michael Lasser - UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines

Can you quantify how much of the $1 billion of operating profit investment you plan to make has already been deployed thus far this year?

Catherine R. Smith - Target Corporation - CFO and EVP

As you saw in the quarter, we are seeing the continued investment in both SG&A as well as gross margin. We also though are working really hard to make sure we can offset with efficiencies throughout the organization, where appropriate. And so you’re seeing that -- you saw it come through in SG&A and in gross margin this first -- the second quarter, you saw in the first quarter as well to do that. So where we see the investments get the return that we expect and the results we expect, we’re investing faster and heavier to accelerate the transformation. So I would say we’re on path to what we said we would do. And you’re seeing it come through in both Q1 and 2.

Operator

Your final question is from Kate McShane with Citi.

Kate McShane - Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst

I wanted to just ask about promotions a little bit more, if you don’t mind. I know matching promotions are fluid. But how much more work do you need to do in moving your categories and products to EDLP? And what way are these changes impacting the second half outlook? And I know you’ve mentioned that there’s been challenges in the past in terms of conveying value to your guests. And I just wondered how this messaging has changed.

Mark J. Tritton - Target Corporation - Chief Merchandising Officer and EVP

Yes. Okay, I’ll take that one. So our promotional efforts are really a roll through the quarter event. And we began them in first quarter in April. And our second round of taking key items that comprise our guest basket and focusing on priced-right daily items really took hold and then second wave by end of July. The next round of that is through October. And that’s when we’ll be coming together to have a more concise in-store marketing campaign and regular cadence of new brands to the guest to communicate value. So we think that at that point that we have a strong base to maintain. And this is why in half 2, we’ve been prudent in how we forecasted our sales and margins based on also unit growth initially. We see trip growth initially. And we need to see that dollar growth balance out over time. But we know that we’ve been patient with that, hence some of our earlier discussions at the start of the year are about investing ahead of the curve.
Brian C. Cornell - Target Corporation - Chairman and CEO

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

Operator

This concludes today’s conference. Thank you for your attendance. You may disconnect your lines.