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EDITED TRANSCRIPT

TGT.N - Q2 2022 Target Corp Earnings Call

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TGT reported 2Q22 results.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Target Corporation's second quarter earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, August 17, 2022.

I would now like to turn the conference over to Mr. John Hulbert, Vice President, Investor Relations. Please go ahead, sir.

John Hulbert - *Target Corporation - VP of IR*

Good morning, everyone, and thank you for joining us on our second quarter 2022 earnings conference call.

On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; Christina Hennington, Chief Growth Officer; John Mulligan, Chief Operating Officer; and Michael Fiddelke, Chief Financial Officer. In a few minutes, Brian, Christina, John and Michael will provide their perspective on our second quarter performance and our outlook and priorities for the remainder of the year. Following their remarks, we'll open the phone lines for a question-and-answer session.

This morning, we're joined on this conference call by investors and others who are listening to our comments via webcast. Following the call, Michael 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 most recently filed 10-K. 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.

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With that, I'll turn it over to Brian for his thoughts on the quarter and his perspective on the back half of the year. Brian?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Thanks, John, and good morning, everyone. Back in June, we announced that our team would be undertaking a bold effort to rightsize our inventory position in the categories through which demand patterns have rapidly changed.

While this decision had a meaningful short-term impact on our financial results, we strongly believe it was the best path forward. Consider the alternative: we could have held on to excess inventory and attempted to deal with it slowly, over multiple quarters or even years. While that might have reduced the near-term financial impact, it would have held back our business over time. Of course, this decision would have driven incremental costs to store and manage the excess inventory over a longer period. But much more importantly, it would have degraded the guest experience. It would have cluttered our sales floor and hampered our ability to present new, fresh and fashionable items, the ones our guests expect from Target.

Just as importantly, the extra inventory would have presented an ongoing burden to our supply chain and store teams, as they face the distraction of working around it day after day. Instead of taking that passive position, our team chose a more decisive path, aggressively reducing the inventory we already owned and cutting back on receipts for the back half of the year. And today, with those decisions behind us, we're in a much better position as we head into the fall season.

As you'll hear in more detail, we've meaningfully reduced our ownership and commitments in categories where we've seen softening demand. This has allowed us to strengthen our inventory position and in-stock position in the categories that are driving our growth, most notably in Food & Beverage, Beauty and Essentials.

Regarding the financial impact of those decisions, Michael will provide more details in a few minutes. But the high-level story is, the vast majority of the financial impact of these inventory actions is now behind us. This positions our business to deliver a meaningful improvement in operating margin rates in the fall season. However, beyond financial and operational outcomes, I'm focused on how our inventory actions will benefit our guests and our team. Regarding our guests, we're now positioned to continue driving engagement and growing traffic with a clean, safe and uncluttered store experience and an assortment that highlights newness and supports growth. For our team, this quarter's inventory actions will enable them to focus on doing what they do best: providing a great guest experience while reducing the stress and distraction from overly crowded store backrooms and distribution facilities.

After we announced the rightsizing effort at the beginning of June, I have heard from countless leaders across the company, who wanted to relay their gratitude for the decision to move quickly and face the issue head-on.

In the same spirit, I want to pause and acknowledge the incredible effort of the entire Target team during a very challenging time for the economy, for our industry and our business. Our success in reducing inventory was a result of unprecedented effort, coordination and collaboration across multiple teams, from our U.S. headquarters to our Target India headquarters, to our stores, distribution centers, transportation team and sourcing offices around the world. And today, in the face of a very challenging backdrop, I'm proud of how our team and business model continue to serve our guests' evolving needs. Everything we do, from the design of our operating model to the way we train our team, is done with a focus on better serving our guests.

It's reflected in how we choose our assortment, where we curate a broad range of items, both in-store and online, from the stylish to the functional, incorporating quality and value throughout. It's also evident in how we design our store and the digital shopping experience that make them easy, convenient and inspirational, inviting guests to choose the right option every time they shop. All of these decisions make our business model more durable, allowing us to drive deeper guest engagement and grow traffic in every environment.

Consistent with the shopping trends we've seen for more than a year, our second quarter comp increase of 2.6% was driven entirely by traffic, which expanded 2.7% this year, on top of double-digit growth a year ago. With this increase, second quarter traffic has expanded by well over 20% since 2019. In raw numbers, that means in the second quarter alone, we've added more than 90 million guest visits over the last 3 years.

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These visits are a vivid demonstration of a deepening level of guest engagement resulting from multiple investments throughout our business. These investments include dozens of new stores and hundreds of remodels every year. They also include investments in our industry-leading same-day services, which have transformed our business in a short time. More specifically, 3 years ago, in the second quarter of 2019, digital fulfillment accounted for just over 7% of total sales. In contrast, by the second quarter of this year, the same-day portion of our digital sales accounted for more than 10% of our total sales. This drove our total digital penetration up to almost 18%, more than doubling in only 3 years.

Beyond our stores and fulfillment services, guests continue to respond to our investments in our own brand portfolio. This portfolio delivers more than $30 billion in annual sales, and includes 12 brands that generate more than $1 billion each. At the same time, we're investing in new spaces and presentation for key national brand partners like Apple, Disney and Levi's. And of course, we've been rapidly expanding the number of stores that feature an Ulta Beauty at Target given the incremental traffic and sales they deliver. But nothing has been more important than the investments we've made in our team. These investments include the move to a starting hourly wage range of $15 to $24 across the country, enhanced health care and wellness benefits for a larger percentage of our team, the rollout of an industry-leading debt-free college educational plan and our work to enhance the growth and development opportunities available to all of our team members, and the team members of color in particular.

As we look ahead to the back half of the year, the team is laser-focused on delivering convenience, value and joy at a time when our guests are facing multiple challenges. And while we've taken a cautious stance on our inventory commitments, we'll continue to lean into frequency categories where guest demand has been strong and where the markdown risks are very low.

In addition, given the ongoing pressure our guests are facing from inflation, we're leaning into value. This means we're focused on providing great everyday pricing and strong opening price points across every category, including in our own brands. At the same time, we hear from our guests that they're focused on celebrating the seasonal moments they missed over the last 2 years. As a result, we'll lean into those seasonal moments, helping our guests find ways to come together and celebrate with family and friends.

So we still have a lot of business ahead of us. We've seen an encouraging start to the back-to-school and back-to-college season, and our teams are already deep into their planning for the upcoming Halloween season, a time when we expect our guests will fully embrace trick-or-treating and scheduling parties to celebrate with family, friends and neighbors.

Given continued volatility in the external environment, we built our fall plans with a priority on flexibility and agility, and that's where our business model shines. More specifically, our multi-category portfolio stays relevant and drives trips across a wide range of wants and needs.

In today's environment, that means our Food & Beverage category is front and center, having grown more than 50%, or $1.8 billion since the second quarter of 2019. But regardless of whether a Target Run begins with a need for an item in food and beverage or household essentials, to see what's new in our beauty assortment, to pick up a toy for a birthday party or a piece of luggage for an upcoming trip, our safe one-stop shopping experience provides an opportunity to sell items in every one of our categories on every guest visit.

Beyond our assortment, our unique stores-as-hubs operating model offers unmatched flexibility in how we can fulfill guest demand. Whether a guest wants to make a conventional in-store shopping trip, place a drive-up order, arrange a Shipt delivery or simply have a box delivered to their front door, stores can fulfill every one of those needs quickly and reliably, allowing our guests to choose what works best for them in that moment.

And as Michael will outline in more detail, our strong balance sheet and robust cash generation support continued investments during tough times like these, investments in our long-term growth and market share.

At a time when many others will be struggling just to survive, the ability to play offense and focus on the long term makes us well positioned to emerge from the current downturn even stronger than before.

So as I get ready to turn the call over to Christina, I want to thank our team for their continued passion for serving our guests and each other. While the environment remains challenging, I'm inspired by the new and unique merchandise, seasonal offerings and partnerships our team has planned for the back half of the year. And as I've traveled across the country to visit our stores and distribution centers, I've been inspired to hear how our team is energized and eager to serve our guests with energy, empathy and care, bringing some daily joy at a time when our guests are dealing

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with multiple headwinds. This unshakable guest focus is one of the many reasons our unique team makes Target a great company, and I am privileged and grateful to serve with them.

With that, I'll turn the call over to Christina.

A. Christina Hennington - *Target Corporation - Executive VP & Chief RBT/Fat 9 Tf5Od1 1r,er14 0..0711 36 0 0 1 36 675.75 Tm586.4 675.7mlanks, Brian*

Overall, the Home category saw a low single-digit decline compared to last year despite affinity for our seasonal assortments and encouraging early results in back-to-school and back-to-college.

Apparel also saw a low single-digit decline in the second quarter but saw meaningful growth in women's fashion-forward categories, along with performance apparel, on top of strong sales growth in the category over the past 2 years.

As I mentioned earlier, while overall sales growth is one key indicator of the health of our business, market share is an equally important measure

than 1.5 million guests link their Target Circle and Ultamate Rewards accounts, a number that's sure to continue to grow in the months and years ahead.

So now before I pass things over to John, I'd like to take a moment and echo Brian's gratitude for the team. While we have demonstrated time and time again that our durable, flexible model can quickly pivot with changing consumer demands and a host of retail and economic conditions, none of that can happen without an incredible team. Their talent, dedication, passion and expertise allows us to continue putting the Target guests at the center of every decision we make. As a result, we continue to benefit from deeper guest loyalty and preference for our brand.

I have been at Target 19 years, and I continue to be inspired every day by the talent around me. Thank you for your commitment and care to all our stakeholders.

With that, I'll pass things over to John.

John J. Mulligan - *Target Corporation - Executive VP & COO*

Thanks, Christina. In past calls, I've described how our operations team is always focused on two things at the same time. Of course, they're always focused on short-term execution and problem-solving to ensure we provide a convenient, consistent and inspiring experience for our guests. In addition, our team works every day to deliver on our long-term vision and aspirations, ensuring our operations are ready to support our future plans. While this dual focus on both near-term and long-term priorities has always been present, it's been especially notable this year, given that we've been operating in a very unique environment.

In terms of the short term, and as Brian and Christina mentioned earlier, our work to quickly rightsize inventory required determination, commitment and coordination between multiple teams across the company. And given the need to protect the guest experience, there was no higher priority than delivering against this near-term plan. At the same time, our team remains passionately focused on the long-term investments we're making in our future. These investments include our work to modernize and expand our store footprint, increase upstream capacity in our supply chain, automate distribution center processes to reduce store workload and enhance our last-mile fulfillment capabilities by opening sortation centers and integrating them into our Shipt network. And fortunately, as Brian highlighted, the strength of our business allows us to continue funding these long-term investments even in the face of the challenging external backdrop we're facing today.

I want to first turn to our work on inventory. And I'm happy to report that our team has made remarkable progress over the last few months, causing conditions in our supply chain to improve significantly. More specifically, and to provide some helpful context, over time, we want to keep our DC network operating at or below 85% of its maximum capacity, given that operational difficulties and costs rise significantly when we move beyond that level. So it's important to note that back in June, inventory in our DC network peaked at well over 90% of our capacity. Also notable, by the end of the second quarter, less than 2 months later, our team had quickly reduced DC capacity utilization to below 80%.

Put another way, by the end of the second quarter, the physical space occupied by our distribution center inventory was more than 20% lower than the peak we reached in June. So today, while we still have some individual sites where we need to make more progress, the team has accomplished a remarkable improvement in a very short time, which will allow our end-to-end operations to function more efficiently and effectively in the back half of the year.

As Christina mentioned, beyond addressing the inventory we already owned, the team also took a hard look at sales trends and determined ideal inventory levels across every category for the remainder of the year. As a result, we've meaningfully reduced our fall season receipt commitments in many discretionary categories. With these reductions, we're projecting our DCs will remain at or below 85% capacity through the remainder of the year, even after the seasonal increase in holiday inventory that is set to occur over the next 2 months. In other words, for the first time I am aware of, our fall season inventory is projected to peak at a lower level than in spring, providing another vivid illustration of the unique dynamics we've encountered so far this year.

While this inventory rightsizing process hasn't been easy and our teams have devoted an amazing amount of effort in a small amount of time, this work has allowed our teams to strengthen ongoing communication mechanisms and build new processes. Going forward, these improvements

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will enable our merchandising and supply chain teams to maintain enhanced real-time communication, particularly with respect to categories where we face the highest inventory risk, allowing us to respond to changes with more speed and agility.

While pressure from excess inventory has presented the biggest challenge to our team this year, dealing with high costs and volatility in the external supply chain has run a close second. And today, while conditions remain far from what we would have considered normal in the years before the pandemic, there are early signs that both costs and volatility may have peaked. More specifically, lead times in global shipping have begun to decline. Spot rates to move shipping containers have fallen somewhat. And in light of the reduction in petroleum prices we've all seen recently, fuel surcharges have been easing somewhat compared with the peak rates we saw earlier in the second quarter.

That said, conditions remain highly unfavorable when compared to the years before the pandemic, and we're mindful of the continued risks in the months ahead, including potential slowdowns at the West Coast ports, a reversal of the recent decline in energy costs and the possibility of additional COVID lockdowns in China.

Beyond this work in stores, we're also making significant investments in our supply chain focused on 3 main priorities. The first is to build additional upstream capacity to our network, given that we continue to grow sales on top of the $27 billion we added in 2020 and 2021. In support of this goal, we opened 2 upstream DCs near the end of 2021 and plan to open 6 new upstream facilities over the next several years, including 2 on track to open in 2023.

In addition to the space we're adding to the network, we're continuing to modernize how our existing distribution centers serve our stores by developing and automating processes that reduce the amount of store workload devoted to receiving inventory and restocking store sales floors. And finally, we're rapidly expanding the number of sortation centers operating around the country. We have 6 of these facilities operating today, including 3 that have opened in the last few months, and we have plans to add 5 more by early next year. These small facilities expand ship-from-store capacity in the locations they serve while significantly reducing last-mile delivery costs, particularly as we integrate our Shipt drivers into the process.

With that as context, I want to zero in on one of the questions I'm sure you have, which is why our inventory on the balance sheet remained roughly constant at around $15 billion between the first and second quarters. The simple answer is that while that single number didn't change much, we accomplished exactly what we intended to do during the quarter, which helped change conditions significantly below the surface.

More specifically, because of the inventory actions we executed, unit growth compared with 2019 in our discretionary categories decelerated by more than 15 percentage points between the first and second quarter, a change we estimate would have reduced our inventory position by more than $1 billion if taken in isolation.

However, a couple of offsetting changes moved our quarter-end inventory in the other direction. First among them, we leaned into our frequency categories during the quarter, accelerating 3-year unit growth versus Q1 at a double-digit rate, resulting in stronger in-stock metrics compared with 90 days ago. Another factor that drove inventory dollars higher is the continued increase in unit costs we've been seeing across all of our categories, which caused the dollar value of our inventory to grow faster than unit growth in the second quarter.

So where do we stand today? At the end of the second quarter, inventory on the balance sheet was about $6 billion higher than we reported 3 years ago. Of that dollar growth, about $3 billion or approximately half of that total growth is the result of higher unit costs across our assortment. Of the remaining $3 billion, our analysis indicates another $1 billion to $2 billion is related to our decision to move receipt timing earlier, given the volatility we continue to expect in the supply chain. And also importantly, beyond reshaping the inventory we already have, our Q2 inventory actions also included the removal of more than $1.5 billion of fall receipts in our discretionary categories, reflecting our continued focus on reducing risk in the current environment. That's why we feel good about our inventory position as we head into the back half of the year.

So now I'll turn to a review of our second quarter financial results. Total sales increased 3.3% in the quarter, driven by a 2.6% increase in comparable sales, combined with the impact of new stores. Total revenue increased 3.5%, reflecting sales growth along with the benefit of nearly 15% growth on the other revenue line, driven by continued strength in our Roundel ad business.

Just as Christina pointed out, that unit share is a key measure of Target's relevance versus competitors, traffic growth is another important indicator of the relevance of our brand. Our continued traffic growth in the second quarter clearly demonstrates the ability of our balanced multi-category assortment to deliver continued relevance in a rapidly changing environment like we're seeing today. So that even as our guests' preference for individual categories has been changing dramatically so far this year, that hasn't affected their preference for Target. As a result, traffic accounted for 100% of our comparable sales growth in the second quarter, increasing 2.7%, on top of 12.7% a year ago. Average ticket remained essentially flat in the quarter, as low single-digit increase in average retail was offset by a similar reduction in the number of items per transaction.

Across our sales channels, store comps grew 1.3%, on top of 8.7% a year ago, while digital comps grew 9%, on top of 9.9% last year. Digital growth continues to be led by our same-day services, which saw double-digit growth overall and mid-teens growth in drive-up.

On the gross margin line, we saw a nearly 9 percentage point decline compared with last year. Merchandising accounted for more than 7 points of this pressure, driven primarily by our inventory reduction efforts, along with the impact of higher fuel and transportation costs, product cost increases and higher shrink, partially offset by the benefit of retail price increases.

In addition, digital fulfillment and supply chain drove about 1.5 points of pressure, reflecting increased compensation and headcount in our distribution centers, combined with the cost of managing excess inventory and higher last-mile shipping costs. Consistent with the first quarter, mix accounted for approximately 10 basis points of pressure. The softness in higher-margin categories like Apparel and Home was largely offset by softness in lower-margin discretionary categories, most notably electronics.

On the SG&A line, we continue to benefit from fixed cost leverage and efficiency gains across our operations, which helped to offset the impact of cost inflation across multiple expense lines. Within overall compensation, lower incentive compensation more than offset continued investments in pay and benefits for our hourly team members.

Altogether, our second quarter operating margin rate was 1.2%, down from an unusually high 9.8% a year ago, driven entirely by the decline in our gross margin rate. This operating margin performance was below the midpoint of our most recent guidance, as the cost of our inventory actions was somewhat higher than expected.

While an operating margin rate of just over 1% is well below anything I've seen in my career and something I never expect to see again, I have no doubt that it was the right outcome given the unusual circumstances we've been facing this year. Our focus throughout the second quarter was to ensure that we took care of the excess inventory of our network and adjust future receipts to reflect the rapid change in sales trends we've seen so far this year. We accomplished this goal to the benefit of our operations, our team and our guests.

Finally, one note on our tax rate. In a period like this year, when our operating profit is unusually low, tax benefits have a larger-than-normal impact on our tax rate, which helps to explain why our year-to-date tax rate has been lower than expected. Looking forward, given that we anticipate a meaningful improvement in our operating performance in the back half of the year, we continue to expect our full year effective tax rate will be in a range around 21%.

Now I'm going to turn to capital deployment and begin where I always do by articulating our priorities, which we've supported consistently for decades. Our first priority is always to invest fully in our business, in projects that support our strategic and financial criteria. Once we've met this first priority, we support our dividend and look to extend our 50-year record of annual increases. And finally, once we've supported the first 2 priorities, we return any remaining excess cash by repurchasing our shares over time, within the limits of our middle A credit ratings.

Regarding the first priority, second quarter CapEx was approximately $1.5 billion, bringing our year-to-date total to just over $2.5 billion. As you'll recall, at the beginning of the year, we guided to an expected full year CapEx range of $4 billion to $5 billion. And at the time, I indicated my hope that we'd reach the high end of that range, with the outcome depending on how many capital projects could stay on schedule.

So I'm happy that, as John mentioned, the team is doing a great job of keeping projects on track despite facing multiple headwinds, all while inflation in the cost of equipment, materials and labor is driving project spending above initial projections. As such, we now expect our full year CapEx will be $5 billion or more for the year, reflecting both the number of projects that remain on track and the expected impact of cost inflation.

Of course, while we prefer not to face the cost pressure on these projects, I'm encouraged that so many value-creating projects remain on track to be completed this year, projects that will benefit our operations and our P&L for years to come.

Turning to our second capital deployment priority. We returned $417 million in dividends to our shareholders in the second quarter, up from $336 million a year ago, driven by a 32% increase in the per share dividend, partially offset by a decline in average share count.

And finally, in June, we reached the final settlement for the accelerated share repurchase agreement we initiated last March. Under this ASR, we invested $2.6 billion to retire 12.5 million shares of our stock. Looking forward, just as our inventory commitments reflect continued caution for the remainder of the year, we're taking a similar cautious stance in terms of our share repurchase activity. And of course, any repurchase activity will be consistent with our long-term goal to maintain our middle A credit ratings.

So now I want to close my commentary on the quarter by covering our after-tax return on invested capital, which measures both our near-term profitability and the efficiency of our CapEx decisions over time. In the second quarter, our trailing 12-month after-tax ROIC was 18.4% compared with 31.7% a year ago. And it's notable, while the current number is well below where we expect to operate over time, an after-tax number in the high teens would have been considered aspirational for our business only a few years ago. So for us to temporarily move down to this level in an environment as challenging as we're facing is a vivid confirmation of the underlying strength and resilience of our business model, and the reason we continue to be incredibly optimistic about our future prospects.

And that confidence starts and ends with our team, so I want to pause and express my gratitude to the best team in retail. Without your efforts, we couldn't have achieved the remarkable growth in traffic and sales that we've seen over the last few years and why even in a tough year, our business remains strong.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Thanks, Michael. I often tell my team that leadership and performance are tightly linked over time, but that leadership often appears first. That's why I'm extremely proud of the leadership our team showed in the second quarter. After they took a hard look at our owned inventory position and the amount that was building up across our industry, they opted to make the hard choice: get in front of the problem and address it head-on.

They made that decision with the full knowledge it would have a profound impact on our near-term profitability. They also knew there was another path. We could have avoided attacking the problem and avoid some of the pain in the short run. But instead, our team chose to lead. They knew the best path for our guests and for our teams in our stores and distribution centers was to take action and improve the condition of our inventory and operations quickly. That path would allow the entire Target team to move ahead without facing the ongoing burden of excess inventory holding us back.

So the team quickly developed the bolder plan, which we announced in early June, just over 2 months ago. And in the intervening weeks, teams across the company worked tirelessly to take the plan and make it a reality. That's the reason we're positioned to deliver a strong improvement in our profitability this fall despite an environment that's far from ideal. Because of our team's leadership, our business today is much better positioned to perform, and I couldn't be more proud and grateful for the courage they have shown.

So with that, I want to thank you for listening into our call today. And now Christina, John, Michael and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We're now ready with our first question from Christopher Horvers with JPMorgan.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

You talked about an encouraging start to back-to-school. Can you talk about what you've seen in July and August? A lot of retailers like you have talked about improving trends. So what does that mean for how you're thinking about the back half comps? And does that reflect the current trend in the business, as you said in the guidance? Because I guess the question we have is, is the risk -- how did you incorporate the risk that the bounce in trend that you're seeing now is just that episodic event-type spending that you've been highlighting all year?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Chris, thanks for joining us this morning. I'll let Christina talk about some of the back-to-school and back-to-college trends and Michael to build on guidance. But before we start, based on the length of our prepared comments, we are going to ask for some additional time for Q&A. So operator, we're going to extend the time for this call to make sure we cover as many questions as possible.

Christina, do you want to start by talking about some of the back-to-school and back-to-college trends we're seeing?

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Yes. As I shared earlier in my prepared remarks, we're optimistic about what back-to-school and back-to-college mean. This -- during seasonal times is when Target really shines, the reason being that our multi-category portfolio makes us even more relevant, the opportunity to buy kids uniform, backpacks, the school -- the lunch kit and everything that goes in it and, of course, all the supplies. And so they've always -- seasonal moments have always been a good proxy for the strength of the total portfolio. And so as we're seeing good early trends, albeit there's a lot of business left to be done, we believe that, that is a good indicator of the strength of the potential for the fall. The other thing to look at, of course, is how we have

performed to date, and our traffic and unit share growth that we've seen across the portfolio holistically gives us confidence in the guest choice of Target as their retailer of preference.

Operator

Our next question is from Steph Wissink with Jefferies.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

Just wanted to ask a follow-up question on pricing for the back half. Just give us some sense of how you're thinking about promotionality. I think you've mentioned in your prepared remarks that consumers were responding to some of the promotions you were putting out. So just give us a sense of what you factored into the guidance in terms of heightened levels of promotions.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Thanks for the question, Steph. I mean we always know as we get to the back half of the year, it's a promotional environment. The holidays always are, and so we factored that in accordingly. And we see a consumer in the current inflationary environment that's focused on value. And like we've said many times in these calls, we think about pricing first through the lens of our guests. We want to make sure the guests can find great value on shelf, online and the way that we're priced and we feel good about where we've struck that value equation. And I think the traffic we're seeing speaks to the fact that guests see it, too.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

And Steph, I'd only add that Christina and her team have done a wonderful job as we plan for the back half of the year, of ensuring that we have great value for our guests but also that we have exciting newness. And I think that combination is a winning formula for us as we think about the back half of the year.

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*

My first question is how much did the 6sd36 333.5 m5.dlior-

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

Okay. My follow-up question is there's obviously a lot of moving pieces with what's happening at Target right now. But isn't a lot of this just transitional and setting the set stage to grow better 2023 really somewhat independent of the macro environment? So with that being said, could you size the impact to your margins from all the inventory actions that you're taking this quarter, next quarter that are temporary and will be isolated to this year and won't repeat next year? Can you give us a better sense of what the ongoing profitability of the business is?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Michael, I'll start by saying, I think your summary really captures the actions we've been taking today really to make sure that we continue to build on the traffic we're seeing in our stores and the visits to our site, the strength we're seeing in unit market share gains; but importantly, the investments we made to ensure we have a great guest experience in the back half of the year and going into 2023. So the bold, decisive actions were really to make sure we continue to build on our current momentum, the great relationship we have with our guests, the momentum we're building from a market share standpoint and providing our guests with a great Target experience every time they shop. That will continue and set us up well for 2023.

As far as sizing it, we'll certainly come back to all of you as we think about guidance for next year, but we certainly expect to see a more normalized environment from an operating profit standpoint as we move into 2023 and continue to build on the momentum and the investments we've been making in our business for years.making in our business for years.

Operator

Our next question is from Kelly Bania with BMO Capital.

Kelly Ann Bania

Robert Frederick Ohmes - *BofA Securities, Research Division - MD & Senior US Consumer Analyst*

And is the inflation component within same-store sales in food and consumables? Is that similar to sort of the numbers we're seeing in the CPI for food at home?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

I think that's generally in the right ballpark. Obviously, there's some mix implications there if you're comparing retailer to retailer. But we've seen persistently high inflation in food. And I think that's a trend that's been with us for a while, and we don't expect it to change anytime soon.

Robert Frederick Ohmes - *BofA Securities, Research Division - MD & Senior US Consumer Analyst*

And sorry, just to clarify, the pricing, folks, are you -- would you say you guys are investing in price in food and consumables? So maybe taking a lower margin in the grocery part of your business than maybe historically you would have.

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

No. Maybe I'll add a little context here. We're consistently evaluating our complete value proposition to the consumer. And so part of that is price.

see a very solid back-to-school and back-to-college season because we know children are going to be in classrooms and will be back in campus, and Target's a place they go during this important back-to-school and back-to-college season.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

And then, Oliver, kind of what's in some of the Q4 actions we still have to take, just to provide kind of an example there. If there's seasonal product, it's a natural time to leave our store within Q3, and we'll continue to work through some of that inventory then. And so that's an example of some of the work still to be done. But kind of in where we started, we feel really good about our inventory position as we exit the second quarter. And we accomplished what we set out to do from an inventory perspective.

John Hulbert - *Target Corporation - VP of IR*

So operator, that concludes our second quarter call. We look forward to talking to many of you over the next few weeks and seeing you later this year, so thank you.

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