THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TGT - Q2 2018 Target Corp Earnings Call

EVENT DATE/TIME: AUGUST 22, 2018 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q18 GAAP EPS from continuing operations of $1.49. Expects 2018 adjusted EPS to be $5.30-5.50. Expects 3Q18 GAAP and adjusted EPS to be $1.00-1.20.

CORPORATE PARTICIPANTS

Brian C. Cornell *Target Corporation - Chairman & CEO*

Catherine R. Smith *Target Corporation - Executive VP & CFO*

John Hulbert *Target Corporation - VP of IR*

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

Mark J. Tritton *Target Corporation - Executive VP & Chief Merchandising Officer*

CONFERENCE CALL PARTICIPANTS

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

Joseph Isaac Feldman *Telsey Advisory Group LLC - Analyst*

Matthew J. McClintock *Barclays Bank PLC, Research Division - Senior Analyst*

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

Oliver Chen *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

Seth Ian Sigman *Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation Second Quarter Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference is being recorded Wednesday, August 22, 2018.

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 2018 earnings conference call. On the line with me today are Brian Cornell, Chairman and Chief Executive Officer; John Mulligan, Chief Operating Officer; Mark Tritton, Chief Merchandising Officer; and Cathy Smith, Chief Financial Officer. In a few moments, Brian, John, Mark and Cathy will provide their perspective on our second quarter performance, outlook for the full year and progress on our long-term strategic initiatives. Following their remarks, we'll open the phone lines for a question-and-answer session.

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

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

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

Brian C. Cornell - *Target Corporation - Chairman & CEO*

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

Total sales were up 7% from a year ago, reflecting 0.5 point of growth from our new and non-mature stores. Store comparable sales increased nearly 5%. And digital sales grew more than 40% in the second quarter as guests continue to respond to a growing menu of convenient fulfillment options, newness throughout our merchandising categories, freshly remodeled stores and a higher level of service across the chain. On top of the of the year. As a result, we've updated our comp guidance, and we are now planning for comp growth in the back half of the year in line with what we've seen in the front half. In addition, we've also updated our full year EPS expectations. Cathy will provide more details in a few minutes.

These upgrades to our outlook reflect the current trends we're seeing across our business, including a very strong start to Back-to-School and Back-to-College. In addition, we continue to focus on unique opportunities in key toy and baby categories, given the recent closure of Toys "R" Us and Babies "R" Us across the country. And of course, as the year progresses, we'll continue to benefit from the broader rollout of new fulfillment capabilities like Drive-Up and Shipt, brand launches in multiple categories, the completion of additional remodels and the opening of more small-format stores.

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

So now before I turn the call over to John, I want to pause and thank the entire Target team for everything they're doing to deliver outstanding operational and financial performance. In pursuit of our plans, we're asking our team to deliver more change faster than at any time ever before. The team is responding enthusiastically to the challenge, and it is inspiring to see our vision coming to life. But I want to quickly add, while our progress feels great, we have no intention of slowing down. We'll continue to seize the opportunity ahead of us and offer our guests more inspiration and convenience than ever before.

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

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

Thanks, Brian, and good morning, everybody. As I've discussed with many of you, the operations team faces a fundamental challenge in delivering on our strategic initiatives. As we work to make changes to virtually every facet of our operations, modernizing our supply chain, delivering new

our expectations. The sale created by far the biggest digital sales day we've ever experienced outside of a holiday season, driving volume nearly 3x higher than our forecast.

While this was great news, of course, our store and supply chain teams had to react and recover quickly to fulfill all the end-plan demand and keep

Also of note, we saw some of our strongest market share gains around key life moments like Mother's Day, Father's Day, Memorial Day and, of course, the 4th of July. But we also saw sustained results outside of those holidays, driven by the strength of our essentials in Food and Beverage categories, which saw share gains in every week of the quarter. We saw unusually strong second quarter growth across each of our style categories: Apparel, Beauty and Home. However, Home was the standout with a comp of nearly 10% growth, driven by even faster growth in decor and kitchen, which are benefiting from our new owned brand. Within Home, we also saw strong sales in seasonal categories, reflecting encouraging early results in the Back-to-School and Back-to-College seasons.

In Apparel, we saw high-teens growth in Baby, reflecting the benefit of the unique opportunity we're facing to gain market share in Baby and Toys, given the recent closures of Toys "R" Us and Babies "R" Us across the country. Given the strong affinity between families with young children and our brand, both Toys and Babies are key categories for us, and we expect to see traffic and share gains in both of them for the rest of the year and beyond.

Outside of the style categories, our Hardlines, Food and Beverage and Essentials categories also delivered standout growth. Hardlines was particularly strong, driven by double-digit comps in both of Toys and Electronics. Now within Electronics, we saw really strong growth in video games as well as Accessories, where we successfully launched our new owned brand, Heyday, during the quarter.

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

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

Even for the promotional events like our July 1-day sale, we're thinking differently about how we can provide value. More than half of our digital sales on that day were in our highly differentiated and high-margin Home category. And as John told you, we blew away our forecast for that event.

As we look ahead, we have a lot more in store for the third quarter and beyond. On top of the new owned and exclusive brands we launched in 2017 and earlier this year, which continued to perform really well, we launched 4 new owned brands in the second quarter that will drive our results going forward. Three of these new brands were designed to invite young millennials and the emerging Gen Z guests to experience Target in ways that are authentic to them.

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

As I mentioned earlier, we launched our exclusive Heyday brand of electronic accessories in June. This brand is designed to appeal to style-conscious guests at an incredible value without sacrificing quality, with trendy fun and quality tech at very affordable prices.

Also in June, we launched our newest home brand, Made by Design, consisting of more than 750 items in kitchen, storage, bedding, bath and even furniture, with most items below $30. This brand is the ultimate expression of Target's DNA, a commitment to the democratization of design, offering high-quality style and affordable prices. We designed each product to intuitively go beyond the expected, delivering smart solutions that make everyday tasks easier.

For example, the cookware incorporates pour spouts on the rims and built-in strainers in the lids. Glasses are stackable, and towels include hang hooks that keep them off the floor. And items were designed to forgive minor mistakes, like silicon and nylon tools that can handle heat up to 450 degrees, in case you accidentally leave your spatula on a hot fry pan.

And finally, in addition to our new owned brand, we are really pleased with the second quarter performance of our unique collaboration with Disney to celebrate Mickey's 90th anniversary. This collaboration features more than 350 exclusive items spanning multiple categories, including Toys, bedding, beach gear, Beauty, even pets, all celebrating Mickey and the pure magic of summer, bringing joy you can only find at Target.

Of course, beyond new items and brands already launched, we have more newness planned for the third quarter and look forward to revealing more soon. But our differentiation doesn't just happen with new brands. We also deliver newness to our existing brand portfolio. Look at Cat & Jack.

We launched this kids brand more than 2 years ago, and sales and market share continue to grow. That's because we continue to invest in delivering newness and great design through Cat & Jack every day, every season. Whether we're talking about new brand or an existing brand, it's our focus on the guest, innovation and great design at a great price that are key for Target to continue to win through differentiation, and that is not going to slow down.

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

Catherine R. Smith - *Target Corporation - Executive VP & CFO*

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

Traffic growth of 6.4% accounted for nearly all of our comparable sales growth in the second quarter. In addition, for the first time in nearly 2 years, our comp sales grew faster than comp traffic as we saw a small 0.1% increase in basket in the quarter. In our last quarterly call, when describing our first quarter traffic increase of 3.7%, we described it as the strongest result we had ever reported since we began reporting this metric in 2008. Obviously then, this quarter's traffic growth of more than 6% is well beyond anything we've reported before, and we are really encouraged to see continued momentum in such a key metric.

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

Our second quarter SG&A expense rate was about 10 basis points higher than last year. Across the broad categories of expense, there were no

Altogether, our operating income margin rate was about 20 basis points lower than last year, somewhat better than our guidance for a 40 basis point decline. Notably, operating income dollars were 3.6% higher than last year as the increase in total revenue more than offset a slightly lower rate.

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

Stepping back to look at the first 2 quarters of 2018 in total. Target's comparable sales have increased 4.8% from last year, and our GAAP and adjusted EPS are both up about 15%. This year-to-date performance reflects the traffic and sales benefit of our strategic initiatives, continued significant investments in operating income and the offsetting benefit from federal tax reform.

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

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

In the second quarter, we made capital investments of just over $1 billion, and we remain on track for CapEx of about $3.5 billion for the year. These investments are concentrated primarily in store projects, including remodels, other presentation enhancements and new urban and college locations around the country. Beyond those capital investments, in the second quarter, we returned just over $0.75 billion to our shareholders in the form of dividends and share repurchases. And in June, our Board of Directors approved a 3.2% increase in our quarterly dividend from $0.62 to $0.64. With this increase, 2018 is on track to mark our 47th consecutive year of annual increases.

Finally, I always like to close my quarterly commentary with a discussion of Target's after-tax ROIC. This is a key metric we monitor closely as it incorporates both our operating performance and the quality of our capital deployment decisions. For the trailing 12 months ending in the second quarter, we recorded after-tax ROIC of 16%, including the discrete benefits of federal tax reform that we recorded in last year's fourth quarter. However, even after we exclude those discrete benefits, our second quarter ROIC of 14.2% was up about 70 basis points from a year ago. It's encouraging that we are returning to growth in this metric as we're seeing the initial impact of last year's strategic investments in capital and operating income, which were designed to best position Target for success over time.

So now let's turn to our guidance for the third quarter and the full year. As we look at the underlying drivers of our traffic and sales, there are more positive indicators than we've seen for many years. These indicators are reinforced by our comparable traffic and sales results, which have been gaining momentum over the last 1.5 years. As a result, today, we updated our guidance for both the third quarter and the back half of the year, and we are now planning for comparable sales growth in line with what we delivered in the first half of the year.

As we move down the P&L to the operating income line, we continue to plan cautiously and focus on the unique opportunity we're facing to capture additional traffic and market share in key categories like Toys and Baby. In light of that opportunity, we have updated our expectations for the gross margin mix of our sales for the remainder of the year, reflecting higher sales expectations in this lower-margin category. With this updated mix expectation, we are now planning for a gross margin rate decline of 30 to 40 basis points in the third quarter.

Combining that expectation with our forecast for a slight increase in our SG&A expense rate and a small amount of rate favorability on the D&A expense line, we are planning for a 20 to 30 basis point decline in our operating income margin rate in the third quarter. These expectations translate to an expected range for both GAAP and adjusted EPS of $1 to $1.20 in the third quarter.

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

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

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

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

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

Brian C. Cornell

Seth Ian Sigman - *Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst*

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

Catherine R. Smith - *Target Corporation - Executive VP & CFO*

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

Brian C. Cornell - *Target Corporation - Chairman & CEO*

But Seth, we feel like we're very well positioned for the back half of the year. As I've mentioned with my prepared comments, we're seeing a very strong start to Back-to-School and Back-to-College. We continue to see very strong traffic trends. And we expect to monetize that in the back half of the year. So you should expect continued strong performance from Target throughout 2018, but it also sets us up for a very strong performance as we go into '19 and beyond. So I think we're well positioned to continue to build off of the current momentum. And you should expect us to begin to grow operating income from a dollar standpoint.

Catherine R. Smith - *Target Corporation - Executive VP & CFO*

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

Seth Ian Sigman - *Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst*

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

Brian C. Cornell - *Target Corporation - Chairman & CEO*

Yes. Seth, I'll start with each one of our key initiatives is ahead of the schedule that we have set 18 months ago. We continue to see really positive responses from our store remodels. And John mentioned that in the month of July alone, we had over 250 stores under construction. In each and every market, we're seeing really strong guest response to those reimaged stores. Our new small formats continue to impress and are driving productivity from a sales standpoint that are beyond our expectations. The reaction the guests has had to our new brands has been spectacular in Home, in Apparel and now in electronic. And each one of the fulfillment capabilities continues to deliver a great response from the guests. John talked about the Net Promoter Score we're getting for a service like Drive-Up that we'll bring to scale for the holiday season, the reaction we're getting in each and every market to Shipt and the quality of Shipt shoppers that are servicing their members. In urban markets like New York or Chicago, San Francisco, Boston, D.C., the ability to shop our urban small formats and then, hours later, have someone deliver that package to your

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

Mark J. Tritton - *Target Corporation - Executive VP & Chief Merchandising Officer*

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

Brian C. Cornell - *Target Corporation - Chairman & CEO*

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

Oliver Chen - *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

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

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

Yes, another great question. I think I talked about this a little bit in my remarks. The challenge for us is balancing changing the business while we operate the business. And as you said, we showed you a lot of what we're doing to change the business. We'll start scaling a lot of that work in 2019, and that has the opportunity to significantly move our capabilities forward as we begin to scale that work. I think, right now, we said as the sales accelerated particularly in Q2 -- Q1 to Q2, there are some areas where we've been spotty on in-stocks, and we're not happy with that. And you see the response in our inventories. We've -- we're flowing goods in a little bit earlier for Q4 so that we can flow them into the stores appropriately. We've taken positions in things like A&A basics, things like denim, chinos, where last year, frankly, the new brands came out and we are almost immediately out of stock. We've made investments there. And then we're working hard on Food and Beverage. And as Mark said, we're gaining share for 6 quarters in a row, so we're learning how to operate that business both differently in the store and in the supply chain. So we feel good about the progress we've made, but we are not satisfied with our current in-stock position. There's more work to do there.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

And I'll just build on that for you and others on the call. Well, this was a really strong quarter for the company. And when we think about comps at 6.5%, the strong comps in-store, the acceleration in digital, there's a lot to be proud of, but we know we've got a lot of work to do. And we've got to make sure that we are now meeting the demand that's taking place within our system. So John is very focused on that to make sure that we improve our in-stock position. But we've seen obviously a step-function change in demand in our stores and online, accelerated growth. We're chasing some of that growth right now. And we've got to continue to make sure that we're doing a better job of replenishing our system as we go into the back half of the year and particularly as we get ready for continued strong growth in 2019.

Operator

The next question comes from Chris Horvers with JPMorgan.

Matthew J. McClintock - *Barclays Bank PLC, Research Division - Senior Analyst*

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

Brian C. Cornell - *Target Corporation - Chairman & CEO*

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

Operator

Our last question comes from Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman - *Telsey Advisory Group LLC - Analyst*

I wanted to go back to something, I think, John was talking about with the labor and some of the changes maybe in the way you're hiring people and kind of the way you're allocating labor in the store and some of the transformation in the back room. Can you just give a little more detail on that and explore that issue?

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

Sure, Joe. I think, internally, you probably heard us talk about the store modernization, and it's really Ken and the store team doing a great job just stepping back and saying what is it we're trying to accomplish in the store. And certainly, there's the work we have to do moving product out to the sales floor and checking people out and all the things that just happen because they have to happen in the store. And our goal there is to become more efficient and to become more efficient not just for efficiency's sake, but to provide the fuel so that we can invest in more talent and better expertise on the sales floor and in particular, in those areas where it matters the most. So think Beauty, Electronics, with our visual merchandising in both Home and Apparel and then in Food. Those are areas where we have gone out and actively hired for expertise, and that's where things like the wage investment are so critical. They've allowed us to differentiate in who and how we hire people. And so those team members finding ways to bring that expertise in and then keep them on the floor so that the Beauty team member is in Beauty all the time and they're able to help the guest and they also keep track of what's going on in that part of the store relative to in-stocks and inventory flow. And so rather having a team of generalists doing price change one day, checking out the next day and maybe moving freight on Wednesday, these individuals are accountable for their part of the store. They're out there, they get to know the guest and provide a very different level of experience. And then we've invested in tools and a significant amount of training to help them. And this has been a journey we've been on for a couple of years, and we will be on it for a couple of more years as the team continues to evolve and build capabilities. But we think it's something incredibly important to our long-term success.

Brian C. Cornell - *Target Corporation - Chairman & CEO*

John, thank you. And operator, thank you. That concludes our Q2 earnings call. I appreciate everyone joining us today, and we look forward to talking to you again when we talk about our Q3 results. So thank you.
