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TGT.N - Q2 2024 Target Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

(audio in progress) Corporation Second Quarter Earnings Release Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, August 21, 2024.

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

John Hulbert - *Target Corp - Vice President - Investor Relations*

Good morning, everyone, and thank you for joining us on our second quarter 2024 earnings conference call. On the line with me today are Brian Cornell, Chair and Chief Executive Officer; Rick Gomez, Chief Commercial Officer; and Michael Fiddelke, Chief Operating Officer and Chief Financial Officer.

In a few moments, Brian, Rick and Michael will provide their insights on our second quarter performance, along with our outlook and priorities for the third quarter and 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 will be 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, including those described in this morning's earnings press release and 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.

With that, I'll turn it over to Brian for his thoughts on the second quarter and his priorities for the third quarter and beyond. Brian?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Thanks, John, and good morning, everyone. I'd like to start my remarks today by welcoming Rick Gomez to this call, following his recent move into the role of Chief Commercial Officer. This change was one of several we announced in June, including Christina Hennington's move into the role of Chief Strategy and Growth Officer, and Lisa Roath's transition into the role of Chief Merchandising Officer of Food, Essentials and Beauty.

Lisa has done a fantastic job leading our marketing team and I've asked her to remain in that role until early 2025. This will provide adequate time for us to complete an external search for her successor before Lisa brings her impressive commercial leadership experience back into the merchandising team. These changes follow our January announcement that Michael would move into the pivotal role of our Chief Operating Officer. Michael took on the CFO role just before the pandemic, and he's done an outstanding job leading the company through a period of unprecedented growth and volatility.

The search for Michael replacement as CFO is ongoing, and I share Michael's excitement for the time when he is able to fully focus on his new role leading all of our operational functions. And of course, we were pleased this month to welcome Amy Tu into the role of Chief Legal and Compliance Officer. During her career, Amy has served in key leadership roles for several Fortune 100 companies. And I'm excited to welcome her to the Target team. Amy is taking the place of Don Liu on our team as he prepares for his retirement.

I want to pause to thank Don for his many years of thoughtful and conscientious service to Target and our stakeholders. He is an outstanding leader who has served as a trusted partner to me, to our Board and our entire leadership team during his tenure here at Target. All of these changes on our team are just the latest evidence of our focus on developing enterprise leaders, ones who go well beyond subject matter expertise to develop strong leadership skills, with a foundation based on a comprehensive understanding of our business and how we fit into the broader landscape.

And as you've seen from our second quarter results, the strength of our entire team was clearly evident in our financial performance, which came in well above our expectations. On the top line, we met our goal of returning to growth, but moved well beyond that baseline expectation. More specifically, our Q2 comparable sales grew 2% at the very top end of our guidance range. And on the bottom line for the quarter, our EPS of $2.57 was well above the high end of our guidance, representing growth of more than 42% over last year.

Among the drivers of our comp sales, we're pleased that our second quarter growth was driven entirely by traffic, reflecting the combined benefits of the multiple guest-focused initiatives we outlined in our financial community meeting back in March. It's also notable that our store and digital channels both saw growth in Q2. Our digital team has done an outstanding job of enhancing our digital experience, and that's showing through in our business results.

We saw high single-digit growth in our digital comps in Q2 and even faster growth Q2 rn fahL,1..34pn ou0 0 1r how on tn in M8,1.r.

But our aspirations go well beyond growing our membership base. We redesigned Target Circle with the goal of increasing engagement among existing members, and we've already realized the benefits. For example, during our July Target Circle Week, about two-thirds of our transactions were made by Target Circle members. Beyond the direct benefit of guest engagement with the platform, Target Circle also helps us gain deep consumer insights, allowing us to extend more personal, customized offers through our Roundel advertising business.

Roundel continues to experience rapid growth. based on the joint value it creates for both our guests and our vendors. In the second quarter, Roundel delivered double-digit growth to the benefit of both gross margin and the other revenue line of our P&L. For the full year, Roundel is expected to grow in the high teens on top of more than 20% growth in 2023.

As we continue to survey consumers and monitor the external environment, our view remains largely the same as we've been sharing for some time. Consumers have shown remarkable resilience in the face of multiple challenges over the last several years, and they remain resilient today. Given the significant headwinds they've faced with inflation over the last few years, consumers continue to focus on value as they work hard to manage their household budgets. And while they continue to turn out and shop around holidays and other seasonal moments, many are delaying purchases until the moment of need.

Against that backdrop, our team continues to focus on providing unbeatable value for our guests. And of course, that starts with a focus on low everyday prices, including our recent price reductions on frequently purchased items. But our focus on value only begins with low prices. Whether we're highlighting compelling deals for our Target Circle members, offering an additional 5% savings to our Target Circle cardholders, designing and sourcing high-quality owned brands at compelling prices or delivery, ease and convenience with Drive Up and Target Circle 360, our team is continually working to find more ways to deliver more value for our guests.

While that's great to see, the team isn't pausing to celebrate. Rather, they're leaning in as they focus on building additional momentum in the back half of the year and beyond. Our team is the best in retail, they're guest-focused and they love to win together, and they're just getting started.

With that, I'll welcome Rick to his first earnings call.

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

Thanks, Brian, and good morning, everyone. I'm excited to be joining this call today, and I'm looking forward to meeting many of you over time. Before we unpack our second quarter results, I'd like to spend some time sharing my priorities as I step into this role, many of which should sound very familiar.

First, I want to reinforce the importance of the areas that Christina was focused on: affordability, newness, seasonal relevance and ease. These are mission-critical. Under Christina's leadership over the years, we've built an incredible foundation which we can build upon. I've also worked with the team on three additional principles to govern how we work.

First, we'll focus on simplifying processes end to end, including how our teams work together as well as with our external partners, with the goal of driving efficiencies and streamlining how work gets done. We should also be relentless in our pursuit of creativity, bringing innovative ideas to market that are original, inspiring and unmistakably Target. And finally, we shouldn't be just guest-led, we should be consumer-obsessed. We'll do this by consistently listening to what consumers want and need and then working hard to deliver for them.

Next, I'll turn to our view of the consumer, which, as you heard from Brian, has remained largely unchanged for some time. American families continue to deal with a lot. These pressures are clearly weighing on them, and they're looking for a refuge from the everyday stress that they're feeling. And yet while the economic data remains mixed, we see a consumer that is still willing and able to spend. Yes, they're still being choiceful. Yes, they're budget conscious. And yes, they're hunting for deals and everyday value. But they're also willing to shop when they find that right combination of fashion and newness at the right price. This was on full display in our second quarter results.

As Brian mentioned, the team was committed to returning to growth this year, and they did just that in Q2 with comp growth of 2% driven entirely by traffic. Also note, every one of our core categories saw traffic growth in the quarter. Sales from Target Circle 360 grew in the low teens this quarter, adding to our confidence that we have a long runway ahead of us to drive awareness and adoption of this differentiated service. In support of this goal, we recently rolled out a new monthly subscription option for Target Circle 360, allowing guests to get the best of Target delivered same day for just $10.99 per month and only $4.99 per month for students.

Within our assortment in Q2, we saw notable areas of strength in both discretionary and frequency categories. As Brian highlighted, discretionary trends have been improving for a full year now, and combined discretionary comps were down only slightly in Q2. This momentum was most evident in our apparel assortment, which delivered low single-digit comp growth driven by newness in combination with strong everyday value, both in stores and online. Comps were led by our performance category in the low double digits as guests loved our latest designs and unbeatable prices in our All In Motion brand.

Women's apparel saw growth in the low to mid-single digits, with particular strength in our young contemporary owned brand, Wild Fable. And our recent relaunch of our intimates and sleepwear brand, Auden, has seen a strong guest reaction out of the gate, offering high quality and comfortable items at compelling price points, like $15 bras and $20 pajama sets. These results demonstrate the broad-based improvements that we're seeing in apparel, a trend we are eager to build on in the coming quarters and years.

While our Home and Hardlines trends remain softer than apparel, we've also seen meaningful trend improvement over the last year. In Home, Q2 comps accelerated by more than 7 percentage points compared with the first quarter and early results in the back-to-school season are right on plan. Within Home, kitchen continues to stand out based in part on our recent launch of Figmint, our high-performance Kitchenware brand. Within Hardlines, while sales in electronics are still under pressure, we've been leaning into other categories with stronger demand, driving a comp trend for them.

Key growth areas include our affordable outdoor offerings in many markets like $1 pool noodles and $10 coolers. Recently, we launched more than 1,000 new items in toys, including over 100 new items in our own brand, Gigglescape, which now includes preschool toys, games, puzzles and an expansion into plush. And in case there was any question of the love for our brand with young shoppers, some of the fastest-growing sales in toys are from Target-themed items, including plush bullseye dogs, kid-sized Target checkout lanes, Target branded poly-pocket toys, Target-branded Fisher-Price little people and so much more.

Beauty continues to gain meaningful market share with comp growth in the high single digits in Q2, driven by a balanced combination of new offerings, celebrity brands, and seasonal relevance. This has been a summer of sun care with guests looking for familiar, affordable options like Up and Up Sunscreen, as well as newer trending brands such as Vacation. Minis have also been a major growth driver, with travel on the rise and consumers looking for a little bit of affordable indulgence for at home too.

In Food, comp sales growth in the low single digits was led by seasonal moments, with hundreds of new items across snacking, grilling and entertaining. With exclusive to Target items like Buble's Melted Ice Pop Flavor, which quickly grew to be the highest selling item in its category, we help guests celebrate summer with fun new flavors and items. In addition to seasonal moments, we've also pushed ourselves to rethink assortment strategies that have been tried and true for years. For example, we transitioned our candy aisles, leading into some of the most popular trends like better-for-you options, including lower sugar treats and wellness candies. While this category was already growing, these changes raised the bar, accelerating comp growth into the double digits.

In Essentials, which also grew in the low single digits overall, Sales growth was largely driven by strength in our Health category, where protein drinks, powders and meal supplements are gaining momentum. Additionally, Baby Care and essentials continue to do well. Across categories, our own brands grew faster than the total enterprise, showcasing the relevance, quality and value we provide to consumers. In fact, because of our industry-leading design and sourcing capabilities, we are better positioned to remove unnecessary steps in the process, which allows us to reduce costs and increase speed to market.

Throughout the second quarter, Target Circle members took advantage of enticing promotions, particularly during our latest Target Circle Week. In fact, this year's Target Circle Weeks have generated the highest digital traffic of the year so far. As Brian mentioned, we added more than 2 million new Target Circle members in the second quarter while also adding hundreds of thousands of Target Circle cardholders and Target Circle 360 members. Because of the invaluable insights we gained through Target Circle, we were able to offer 4 times more personalized offers as compared to a year ago. And of course, those same insights fuel our Roundel media network, which, as Brian mentioned, continues to benefit our business in multiple ways.

While it's hard to believe that summer is already coming to an end, our focus is quickly turning to fall. This, of course, begins with a continuation of our back-to-school and college seasons, which reached their peak in the front half of Q3. More than 70% of our guests shop us during this time frame, and we have plenty in store for them to start the school year off with success and style. Knowing affordability is top of mind for consumers, in many markets this year, we're offering 20 of the most popular school supply items that together are priced under $20, including items like Mondo Llama crayons for just $0.25, notebooks for $0.50 and $5 backpacks.

For our college-bound guests, we're offering a 20% discount to get their dorm room stocked, styled and ready for studying. And as we do every year, we're acknowledging the true classrooms heroes, our teachers, with a special appreciation event offering an additional 20% of must-have supplies. As the fall season continues, we'll be introducing more and more newness across our assortment to celebrate all things autumn.

In our performance category, we're offering new assortments from All In Motion, including our first-ever women's legging destination with new fabrications and a range of colors, sizes and silhouettes to make all bodies look and feel their best. In our women's categories, we're leaning into our fall fashion assortment, which includes wardrobe options anchored in head.75 u.164.use biroTt5n6 ar1aing otrT0 Tthead.75 ulniKn valueof75 u.16avoc

500 new national brand items, ranging from Pumpkin Donut Holes and Jack-o-Lantern sandwich cookies, to Pecan Pie ice cream and Good & Gather turkey stuffing flavored potato chips. From sweet to savory, guests will find all their favorites and be inspired by what will surely become some new favorites too.

And while Halloween may seem far away, our consumer research and early season sales suggest there's a lot of excitement around this year's celebrations. Last year, social media was ablaze with videos of our 8-foot tall Halloween pumpkin ghoul, Lewis. So we had to bring him back this season along with several new friends, all with their own sassy personalities and catch phrases. We're bringing that own brand love to our costume assortment to. Of course, we're standing tall for all the biggest characters of the season, but we're also seeing an outsized response to our Target branded costumes. And with 75% of the Halloween assortment new this year, we are confident guest will see Target as the Halloween destination for the season.

As it turns out, witches come out for more than Halloween, one of the most anticipated films of the year, Universal Pictures' Wicked hits theaters

project in providing solar generators to power homes and medical machines, and provided food, medicine and other critical supplies to the hardest hit neighborhoods.

So much of our Target Forward sustainability strategy is dedicated to working across the business, to address community needs and drive meaningful and positive impact. Through Target's philanthropy and volunteerism, and by integrating business assets to meet the needs of our communities, we aim to be present in ways that help all families thrive, knowing the guests and communities we serve are critical to the success of our business.

So I want to pause and thank our entire team for their tireless efforts, both every day and especially during times of need. You serve as the face of the company in all of the communities where we live and work, and you are the biggest reason consumers love our brand. I'm proud to work with you and grateful for everything you do to support our business, our communities and your fellow team members.

So now I want to pivot and provide a quick update on our sortation center strategy, which continues to benefit our business in multiple ways. A critical aspect of this strategy is faster delivery speeds as local orders processed through a sortation center arrive more than a day faster than our network average. But notably, that increase in speed doesn't require more dollars, as our unit delivery costs from a sort center are about 20% lower than our network average. On top of that direct benefit, opening a sortation center in a market frees up processing space in the stores it serves, while delivering labor savings in those locations as well.

With all of these benefits, you can see why we're excited to continue expanding the reach of this capability. And just this month, we're opening our 11th sort center in the Detroit market, where it's expected to serve more than 3 million consumers. By 2028, this facility is expected to process up to 60,000 packages daily while operating in a smaller-than-average footprint. And beyond growth in the number of these facilities, our existing sort centers continue to ramp up their capacity, and we're finding new ways to integrate them into our broader network.

For example, our recently opened flow center in Chicago will be feeding the Detroit sortation center, increasing the number of packages eligible for next-day delivery in that market. Altogether this year, our sortation centers have processed 19% more packages than a year ago.

So now I want to turn to our second quarter financial results. As Brian highlighted earlier, the 2% increase in our Q2 comp sales was driven entirely by traffic. This traffic increase was partially offset by a decline in average ticket, which included a decrease in our average selling price when compared with a year ago. As Brian mentioned, our guests continue to shop around seasonal moments, leading to strength around the Memorial Day holiday as well as the Fourth of July and our most recent Target Circle week later in the quarter. Within the quarter, comp sales were strongest in June and July, and trends were very similar between those two months on a reported basis. Most importantly, traffic grew in all three months of the quarter.

Beyond our comp sales, second quarter total revenue growth of 2.7% reflected the benefit from sales in nonmature stores and double-digit growth in other revenue, driven primarily by strong growth in our Roundel ad business. Our second quarter gross margin rate of 28.9% was about 190 basis points higher than a year ago. About 90 basis points of this improvement was driven by our merchandising strategies, which included the ongoing benefit of our efficiency work. We also saw about 40 basis points of benefit from category sales mix, which was largely offset by cost pressures from digital fulfillment and supply chain.

Finally, our gross margin rate reflected about 90 basis points of benefit from lower inventory shrink, compared with a 20 basis point benefit in the first quarter. While our guidance assumed that the year-over-year benefit from shrink would increase this quarter, we've seen better-than-expected results in our most recent store inventory counts, resulting in a bigger-than-expected financial benefit in Q2. Based on these updated accounts, we're now expecting our Q3 gross margin rate will also benefit from lower shrink costs, but expect the magnitude of that benefit will be less than half of what we just experienced in the second quarter.

And for Q4, given the financial benefit we were already seeing a year ago, we're expecting shrink costs will be approximately flat to last year. While it's encouraging to see this progress, we'll continue our work to move shrink rates down to more sustainable levels in the years ahead, given the steep increase in shrink that our business has absorbed over the last five years.

Our second quarter SG&A expense rate of 21.2% was about 30 basis points higher than a year ago. This increase reflected cost increases in multiple parts of our business, along with continued investments in our team, which were partially offset by lower remodel expenses, savings from our efficiency work and continued disciplined cost management throughout the enterprise. Overall, our Q2 operating margin rate of 6.4% was about 160 basis points higher than last year as we continue to build back our profitability from the significant headwinds we've encountered over the last couple of years.

Regarding our inventory, we continue to feel good about our position. As I mentioned earlier, Q2 ending inventory on the balance sheet was slightly lower than a year ago. However, given all of the volatility we've experienced since the pandemic began, 1-year comparisons can be hard to interpret. As such, we still find it useful to compare relative growth rates back to 2019. And if you perform that comparison for the second quarter, you'll see that both our sales and ending inventory have grown about 38% over those five years, reinforcing our view that we're positioned appropriately as we enter the back half of the year.

Now I'd like to turn to capital deployment and briefly reiterate our long-standing priorities. First, we look to fully invest in our business and projects that meet our strategic and financial criteria. Next, we look to support the dividend and build on our more than 50-year record of increasing the annual dividend. And finally, we look to return any excess cash that's available after these first two uses by engaging in share repurchases over time within the limits of our middle-A credit ratings.

Regarding the first priority, we've allocated $1.3 billion to capital expenditures through the first half of the year and continue to expect full year CapEx in the $3 billion to $4 billion range. Regarding the second priority, we returned $509 million to shareholders in the form of dividends in Q2, representing growth of about $10 million over last year. And finally, we returned to share repurchases in the second quarter, allocating $155 million to retire 1.1 million shares of our stock.

Given the work of our team to strengthen our balance sheet over the last 18 months and the simultaneous improvements we've seen in our profitability and cash flow, we were happy to get back to repurchases this quarter. We expect to have continued repurchase capacity in the back half of 2024 and in the years ahead.

So now I want to end my commentary on the quarter by covering our after-tax return on invested capital, which is an important measure of the quality of both our financial results and our capital investments. Through the 12 months ending in the second quarter, our after-tax ROIC of 16.6% was nearly 3 percentage points higher than a year ago. While this is already a very strong after-tax return, our long-term financial plans envision continued growth of this metric into the high teens over time.

Now I'd like to turn to our expectations for the third quarter and the full year. And while our performance has exceeded our expectations so far this year and our view of the consumer remains largely the same, the range of possibilities and the macroeconomic backdrop in consumer data and in our business remains unusually high. Against that backdrop, our experience over the last several years has shown us that a prudent outlook, while maintaining the team's agility, is the best way to position our business. As such, we've taken a measured approach to our forward-looking guidance, and our team remains ready to respond if the pace of our business turns out to be stronger.

With these considerations as context, we're pves res for third quarter compalable sales growth in the0%k to %e range, andGAA6undi tha©psted EPS of tha©pstedl5n of ou0 1 4ter-taxlAriPes ingTtheu'a©psted

And importantly, even in a challenging environment, we also expanded our Q2 operating margin rate. We are really proud of these results, which reflect the hard work and dedication of our outstanding team. At the same time, this quarter was only the first step on a much longer journey and we have a lot more work ahead of us. More specifically, with 2019 as a baseline, the second quarter was the first time in a while in which our EPS grew faster than the top line, with total revenue growth of 38% over that 5-year period and EPS growth of more than 41%. Our guidance for the remainder of the year implies further expansion of both of those metrics. And based on our growth initiatives, ongoing efficiency work and continued opportunity to reduce the impact of inventory shrink, we expect to see additional progress in the years ahead.

We have a clear vision of how we're going to get there and the right team in place to make it happen. With that, I'll turn the call back over to Brian.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Thanks, Michael. Before we turn to your questions, I want to spend a minute on a concept we've touched on before, which is the way we uniquely inflation over the last couple of years. A consumer that's choiceful, and so our combination of getting newness and value right in the second quarter led to the performance that was at the top end of our expectations.

As we look at the balance of the year, we've got more of the year in front of us than is behind us, and we think it's prudent to take a measured view against the kind of consumer behaviors we'll be watching over the balance of the year. But importantly, that guidance is still centered on growth. We expect to continue to grow in Q3. We expect to have a growth story for the year. And you can see us playing offense appropriately against that goal, but being measured in our outlook. We think that's the right way to position the business.

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Kate, just to build on Michael's comments. I think in this environment, where there is so much consumer uncertainty, we're taking the appropriate approach to guidance in the third quarter. But as you heard from Rick and from Michael, we're continuing to play to win, and we feel very good about how we're prepared for the big seasonal moments. We're in back-to-school right now and back to college. We're excited about Halloween. And Rick and his team are planning for some unique moments during the holiday season.

So I don't want anyone to be confused with what we think is the appropriate outlook for the third quarter, but the fact that we're going to continue to play offense. We're going to look to drive traffic into our stores and visit to our site, and make sure we deliver great value along with newness for our guests throughout the season.

Operator

Rupesh Parikh, Oppenheimer.

Rupesh Parikh - *Oppenheimer & Co. Inc. - Analyst*

Also congrats on a nice quarter. So I just wanted to go back to the operating margin performance during the quarter. We still had very strong delivery during the quarter. How do you feel about the sustainability of the improvement? And then over time, getting back to that 6% plus margins on an annual basis?

Michael Fiddelke - *Target Corp - Executive Vice President, Chief Financial Officer, Chief Operating Officer*

Yes. Thanks for the question, Rupesh. As we laid out at the start of the year, this year was going to be about progress to that better margin performance over time. And two quarters in, I just can't thank the team enough for their work to put us solidly on the path of the improvement that we laid out for the year. If you unpacked the quarter, I hit on some of this in my remarks, but it always starts with the top line. So to grow the top line on a 2% comp. To see a category like apparel -- so we like the margins in apparel, to see that category return to growth helped us from a mix perspective.

Great work by the team to continue to find efficiency within the business. And we expected a more promotional environment this year. We've certainly seen that so far. But you can see the strength on the margin line due to the team's really hard work to continue to squeeze efficiencies out of the business in ways big and small. And we're pleased with the progress we're making on shrink. Now there's some noise quarter-to-quarter about how that will come through. So tried to unpack some of those details in my prepared remarks. But the net punch line there is we're ahead of where we expected to be in terms of progress on shrink too. And so all that's adding up to an earnings result, we're certainly pleased with. And our work going forward will be continue to continue that momentum in Q3 and Q4.

Simeon Gutman - *Morgan Stanley Co. LLC - Analyst*

I wanted to ask on a near-term question first. It sounds like comps June and July were relatively steady. And I don't know if you talked about product back-to-school, curious about how the consumer is behaving. And then connected to it, any expectation when the discretionary comps may inflect to positive?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Simeon, as we sit here today, obviously, we're in the heart of back-to-school season, kind of the early chapters of back to college. And as Rick talked about, excited about the upcoming Halloween season. I think as we sit here today, we feel well prepared for those big seasonal moments, and we'll continue to make sure we lean in with a great physical and digital experience.

Simeon Gutman - *Morgan Stanley Co. LLC - Analyst*

Maybe one follow-up. Can I ask about price investments, the 5,000 items that have been lowered if, one, I assume you're pleased with some of the elasticity. Does it make you think about price positioning broadly? Are there opportunities to enhance the price position in other places?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

I think we sit here today, we feel really good about the way the consumers reacted to the price investments we've made on those 5,000 frequently purchased items, but it really goes beyond those investments. If you're a Target Circle member, you're getting personalized offers every time you shop. If you're using a Target Circle card, you have the opportunity for that 5% discount. If you're taking advantage of the amazing value we provide through our own brands, that's just one more way to find value when you're shopping with Target.

So it's really a bundle of all those things that we do each and every day. to strengthen the relationship we have with the guests and provide them with the value they're looking for in this economic environment.

Operator

Robbie Ohmes, Bank of America.

Robbie Ohmes - *BofA Global Research (US) - Analyst*

Outstanding quarter. I was hoping, maybe from Brian or others, you could talk about a couple of things, Target Circle penetration. It hasn't been going up is that expected to change? And also same-day delivery is still -- and I guess, Target Circle 360, as you call it, is still not growing as fast as Drive Up. Is that expected to change? And with changing these things potentially be a sales driver? And then is there any margin implication from that on the offset?

Brian Cornell - *Target Corp - Chair and Chief Executive Officer*

Yes. Robby, you've got three or four questions there. I'm going to let Michael start. I'll pick it up from there.

Michael Fiddelke - *Target Corp - Executive Vice President, Chief Financial Officer, Chief Operating Officer*

Yes. Importantly, Robby, I'll kind of take your second point first. We're really pleased with our Circle 360 same-day delivery business, both it and

Rick Gomez - *Target Corp - Executive Vice President, Chief Commercial Officer*

I'd be happy to offer a little color commentary on the food & beverage business. And as Brian said, we believe there is continued runway for the business to deliver growth, driven by a few things. The first is continued emphasis on affordability. As we talked about, the 5,000 price reductions across everyday items was incredibly well received. We'll continue to lean into value on our food & beverage business, not just through everyday pricing, but also through personalized promotions on Circle, as well as with our own brand portfolio, which offers incredible value.