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OVERVIEW:

Company Summary

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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 19, 2026.

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 - Investor Relations*

Good morning, everyone, and thank you for joining us on our second-quarter 2026 earnings conference call. On the line with me today are Michael Fiddelke, Chief Executive Officer; Cara Sylvester, Chief Merchandising Officer; Lisa Roath, Chief Operating Officer; and Jim Lee, Chief Financial Officer. In a few moments, Michael, Cara, Lisa, and Jim will provide their insights on our second-quarter performance and outlook for the rest of the year.

Following their remarks, we will open the phone lines for a question-and-answer session. This morning, we are joined on this conference call by investors and others who will be listening to our comments via webcast. Following the call, Jim and I will be available to answer your follow-up questions.

Also, 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 today's earnings materials, we refer to non-GAAP financial measures, including adjusted earnings per share, adjusted operating income, and adjusted SG&A expenses. 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.

And finally, as many of you know, I am getting ready to retire after more than 26 years at Target, and today marks my final earnings call. Along with that news, I am really excited to let you know that Justin Madsen has accepted the role of Vice President, Investor Relations for the company. Going forward, Justin will be kicking off these quarterly calls, beginning with our Q3 call in November.

With that, I will turn it over to Michael to kick things off. Michael.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Thanks, John, and thank you to everyone joining the call today. Before we dive into our prepared remarks, I want to congratulate John on his upcoming retirement and thank him for his countless contributions to Target. Today marks his 76th earnings call leading our Investor Relations team.

As many of you know, John has played an instrumental role in communicating the strength of our brand and sharing our story with the investment community. Personally, I'm grateful for his counsel, partnership, and friendship, and I wish him all the best in this next stage of life.

Earlier this year, we shared how our refreshed strategy, all in service of returning to sustainable growth, is centered on serving busy families with a differentiated combination of style, design, quality, and value in a way that is uniquely Target. To deliver on this strategy, we've outlined four key priorities: leading with merchandising authority, elevating the guest experience, accelerating technology, and strengthening our team and communities. Across each of these four priorities, we're seeing encouraging momentum. Our results show that our strategic choices, combined with the hard work of our team, are delivering change that is resonating with guests.

To be clear, we're just getting started, and there's a lot of important work ahead. But importantly, these early results give us increasing confidence that the investments we continue to make, all in service of our strategy, will support continued growth on both our top and bottom line while making Target not just a place to shop, but a destination for busy families. As we continue to elevate what we sell and how we sell it, they're choosing us more often, reflected in another strong quarter of traffic growth, up 3.6% to last year, which is a slight acceleration on a two-year basis compared to Q1.

In a moment, Cara, Lisa, and Jim will unpack our second-quarter results and key investments we've made to elevate the business. But before they do, I'd like to highlight a few examples of the progress we're making and our work in flight. In light of our focus on merchandising authority and elevating the guest experience, Q2 saw the completion of the largest volume of in-store transitions of any quarter over the past decade. Those changes included layout changes encompassing nearly half of our center store grocery assortment, a complete reimagination of our Fun 101 floor pad, replacing nearly three quarters of our decorative accessories assortment in home, and continuing to deliver limited time partnerships that reinforce Target as the destination for what's new, on-trend, and culturally relevant.

And in a testament to the dedication of our team, even with this volume of change, we're seeing continued progress on inventory reliability and guest satisfaction metrics, which are now reaching levels we haven't seen in many years. And while we know there is still a lot of work to be done for every store to reach its full potential, we're very encouraged by this progress we're seeing and the momentum we're building.

Just as importantly, we're delivering an incredible amount of trend-right newness while also providing outstanding value across the entire portfolio. As we've said consistently for years now, all of our business decisions are grounded in a focus on the consumer and providing outstanding value on every trip to Target. Over the past year alone, we've lowered prices on more than 10,000 items, reinforcing our commitment to ensuring families can find a unique combination of style, quality, and affordability every time they shop with us. Cara and Lisa will expand on these efforts in a few minutes.

To support this year's ambitious agenda, we're accelerating our tech capabilities to make every part of the business stronger, from how we serve guests to how we equip our teams. We're continuing to modernize our tech foundation while investing in new industry-leading capabilities that allow us to personalize experiences across stores and digital channels, strengthen one of the nation's premier retail media businesses, help our merchants identify and respond to emerging trends faster than ever before, and connect with both new and existing guests in increasingly relevant ways.

Earlier this year, we became one of only a small number of retailers to partner initially with OpenAI, Google Gemini, and other leading platforms to shape the future of agentic commerce. While still small in total today, as more consumers begin to explore the benefits of agentic shopping, Target's digital traffic sourced from external AI platforms is growing more than 3.5 times the industry as compared to a year ago. I'm also excited to share that to help us build on that momentum, we recently announced our new Chief AI Officer, Chandhu Nair, who will accelerate how we harness the power of AI to create better guest experiences and unlock new capabilities across our business.

As we continue investing in products, the guest experience, and tech, at Target, it's our team that brings a great guest experience to life, and we're committed to continue investing in our team. We've expanded training to help them sharpen skills while deploying technology that simplifies work, reduces friction, and gives them more time to focus on what matters most: serving our guests. And core to our roots as a company, we've been investing in communities all across the country. Already this year, we've opened 24 new full-size stores, serving new neighborhoods and creating thousands of jobs in communities we hadn't previously served.

Every new store allows us to become a trusted new neighbor for tens of thousands of additional busy families, delivering a joyful shopping experience, affordable everyday essentials and inspiring finds, and bringing the best of our brand closer to more and more families. Together with our new supply chain facilities, we're investing billions of dollars across the US, strengthening local communities while positioning us to serve even more guests for years to come.

I want to close by thanking our team members across the company. Every achievement this quarter, from executing major merchandising transitions to advancing our technology capabilities, opening new stores, and so much more, reflects their commitment, resilience, and care. Thank you for everything you've done so far this year and for the passion you bring every day. Because of you, we're building a stronger Target with tremendous opportunities still ahead.

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

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Thanks, Michael. On our last earnings call, I outlined how our enterprise strategy is centered on serving busy families by becoming more relevant in the areas that matter most to them. This led us to identify seven priority areas where we're placing disproportionate investments, areas that we believe have an outsized importance with busy families.

As a reminder, they include building a leading beauty destination, expanding our role in health and wellness, being food forward, celebrating baby and kid life, leading in women's style, inspiring the love of home, and building culture-driven categories, including toys and entertainment. Today, these areas represent about 50% of our sales, and we believe they will contribute even more to our growth going forward.

We're still early in this journey, but what we're seeing gives us confidence. Importantly, our growth disproportionately came from the areas where we're making some of our biggest changes, reinforcing that we're investing behind the right opportunities and beginning to see those choices translate into performance.

You'll recall that in the first quarter, we invested meaningfully in baby, health and wellness, and beauty, and we've been pleased with the response from our guests. Importantly, the response has been durable. We're not simply driving a quarter of strong performance, we're building momentum. And that's an important part of strengthening Target's merchandising authority, having a clear point of view on what our guests want, making sharper assortment choices, and delivering newness, differentiation, and incredible value through an experience that feels distinctly Target.

In Q2, we brought that approach to life through significant transitions across food and beverage, Fun 101, decorative accessories in home, and other priority categories, creating more reasons for guests to choose Target. Let's start with food. Earlier this year, I talked about our ambition to make food a destination, not simply a category a guest shops while they're in our stores, but a reason they choose to come to Target. We recently completed our largest food transition in more than a decade, changing the presentation of nearly half of our center store grocery assortment, adding new and unique offerings, and reimagining end caps and in-aisle presentation to make discovery easier.

But this wasn't just about resetting aisles. We also expanded fresh produce, created new focals for seasonal offerings; added space for fast-growing categories like snacks, global foods, and functional coffee; and continued introducing emerging brands and trending products. The response has been really encouraging. Snacks, beverages, and candy were already among our largest categories by sales, and these transitions are building on that strength.

For example, post-transition, snack sales are running more than 15% ahead of last year, with outstanding momentum in protein bars, meat sticks, and better-for-you snacking options. Just as importantly, we're pairing that innovation with incredible value. That's merchandising authority in action, understanding where the guest is going and moving with speed to get there, bringing together trend, quality, differentiation, and affordability in a way that's uniquely Target.

Also in the second quarter, our teams completed a massive reinvention within the Fun 101 category. It's a great example of the intentional choices we're making to differentiate our assortment and experience. That meant evolving legacy presentations within TVs and bikes, and dedicating more of that space to categories like wearable tech, Lego, trading cards, and collectibles.

These are the kinds of choices we need to make more consistently, staying close to the guest, moving at the speed of culture, and being disciplined about where we invest our space. One great example is our refreshed only at Target Heyday electronics assortment, where we're bringing even more compelling style, design, and value to the category. Sales of our style-forward $10 headphones are running more than 35% ahead of last year. And in toys, we added a plush wall, expanded our Lego assortment, and made the experience far more exciting and immersive.

While these enhancements have only been live for a few weeks, our focus on culture-right toys at incredible value has been fueling this business for several quarters now and did so again in Q2. Lego sales are up more than 30% to last year, plush sales are up more than 20%, and guests are gravitating towards on-trend newness at compelling $5, $10, $15, and $20 price points.

Finally, I'd like to spend a minute on one of the things that makes Target truly unique: our ability to create cultural moments. These moments do far more for us than creating short-term buzz. These moments attract new guests, deepen our relevance, and reinforce Target's role in culture. In the second quarter, exclusive collaborations continue to demonstrate the power of that strategy.

Our Pokémon collaboration inspired joy for fans of all ages and became one of the biggest fan moments in our history. Beyond the incredible social engagement we saw across platforms, this exclusive collaboration also introduced thousands of new guests to Target and reinforced our leadership in fandom and collectibles.

As we entered the back-to-school season, we built on that momentum with our exclusive partnership with LoveShackFancy. This offering ended up being the largest limited time collaboration in Target's history, and I think it's a great example of what only Target can do. We identified a brand with enormous cultural relevance and partnered with their incredible team to create something truly special.

Our merchants and designers worked to translate their aesthetic across multiple categories, including through partnerships with key national brands. We used the scale of Target to turn it into an immersive experience, and we made most of the assortment available for under $25. Style, culture, multi-category merchandising, incredible value, that combination is distinctly Target and very difficult to replicate.

Our focus on merchandising authority is also driving meaningful progress in another critical area: improving inventory reliability. Being reliably in stock isn't just an objective for Lisa and the operations team; it's a team sport and a merchandising imperative. We have to make sure our guests can find the product they want, when and where they want it. That requires our merchandising and operations teams to work differently together. And you'll hear more from Lisa shortly on how our teams are working together to do just that.

Looking ahead, our team is focused on extending our Q2 momentum into the back half of the year. And later this quarter, we'll introduce Target Beauty Studio in more than 600 stores, creating a more elevated beauty destination and furthering our solid foundation as an industry leader in this space. Having just reset 75% of our decorative accessories assortment in Home, we'll continue our work to strengthen our home offerings with significant assortment changes ahead in kids home and bedding. And of course, we're still in the back-to-school and back-to-college season. This year, our combination of style, trend, and value is resonating with guests. In fact, 95% of our school supplies assortment is priced at or below last year's prices.

We've also enhanced the shopping experience with AI-powered teacher and college wish lists, and more personalized content on our app's home screen. Guests are responding with total wish list creations up more than 50% to last year. Items added to these lists more than doubling, and conversion across our key back-to-school pages up nearly 20%. With some important weeks still ahead, we're focused on delivering a strong finish in back-to-school and back-to-college.

And throughout the third quarter, we'll continue giving our guests reasons to choose Target through differentiated own brands, exclusive partnerships, and compelling value. We've already lowered prices on more than 10,000 items over the last 12 months and are planning for additional price reductions yet this year.

As we've said before, this transformation won't happen all at once. In some categories, we're pleased with our progress, and we're seeing meaningful momentum. In others, including home and apparel, our performance is not where it needs to be, and the work will continue into 2027 and beyond.

But compared with where we were at the beginning of this year, we have greater clarity. We're moving faster, and we're seeing more evidence that the choices we're making are resonating with our guests. We know where we want to focus and what it will take to win. We know where we need to get better, and our teams are executing against those priorities with urgency.

There's a lot of work still ahead of us, but I'm confident in the direction we're heading and in a team that is hungry to win. Team, I want to thank you for the tremendous amount of change you've taken on this year. I'm incredibly grateful for the energy, the creativity, and commitment you bring to our guests, our brand, and our business every day. Thank you.

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

Lisa Roath - *Target Corp - Executive Vice President, Chief Operating Officer*

Thanks, Cara. In my role as Chief Operating Officer, I am focusing my team on creating an easy, inspiring, and friendly experience for our guests by strengthening execution across our enterprise. That focus for our team will always be key, but one theme within this ambition has become increasingly clear: the importance of consistency. As we have accelerated the pace of change across the business this year, consistency matters more than ever. It means being clear and disciplined about our priorities, translating our plans into execution, and delivering against our expectations every day.

It also means consistency in how we lead, engaging our teams, listening to their feedback, and providing clarity about what matters most. With so much changing around us, that clarity and consistency from us are more important than ever. Ultimately, that consistency needs to show up in the experience we create for our guests. We want every store to deliver on our promise; every interaction with a guest to feel welcoming and helpful; and every product we sell to bring delight. A consistently great experience every time -- that is what we are striving toward.

And while we are not there yet, we are encouraged by the progress we have made so far this year. And if you look back at the second quarter, the amount of change our teams delivered was truly remarkable. As you heard from Cara, we completed the largest amount of space transformations in more than a decade. Our teams reinvented food spaces, transformed Fun 101, prepared more than 600 stores for the launch of Target Beauty Studio, opened 17 new stores, advanced more than 100 remodels across the country, and prepared for and kicked off one of our biggest seasonal moments, back-to-school and back-to-college.

And while we are excited about the results these changes are driving, none of this work was simple. From evolving legacy bike and TV walls to create more relevant shopping experiences, to executing our largest center store grocery reset in years, to changing how products flowed through our network for back-to-school -- thousands of decisions and countless overnight shifts brought these changes to life.

And because so much of this work was completed only recently, guests are just beginning to experience the impact. That gives us growing confidence in what these changes, and the investments still ahead, can deliver for our guests and our business. And with each activation, we learn how to improve future transitions, helping us move closer to our aspiration to be the most delightful shopping experience in retail.

Improvements in our planning tools are enabling stronger store execution, while closer coordination across merchandising, supply chain, and store operations help ensure our teams can stay focused on serving guests, even while delivering an extraordinary amount of change. That same end-to-end thinking guided our preparation for back-to-college and back-to-school. By pre-positioning inventory and dedicating trailer capacity to key seasonal assortments, we improved product availability in our highest volume stores and helped create a more reliable and inspiring guest experience during these important seasons.

At the same time, our teams are hard at work preparing for the launch of Target Beauty Studio. From routing fixtures to training dedicated beauty advisors, all to help our team deliver an elevated guest experience in beauty. The new spaces are under construction as we speak, and we are excited to unveil these new offerings at more than 600 stores beginning next month.

And while our transformation work has added disruption to the store experience for our guests, and that work is far from over, we are encouraged by the progress we are seeing. That progress also shows in our inventory reliability metrics, which continue to improve.

On our most important items, those that are most frequently purchased, we have attained the strongest item availability in recent years, while overall reliability metrics have reached multi-year highs. That means more guests are ending their shopping trips with all the products they came to Target to buy, one of the most important ways we are looking to build trust.

But to be clear, even with this progress, we still are not where we want to be. We will continue to dedicate an outsized focus on the continued improvement of our inventory reliability metrics, striving towards greater consistency across all stores and all categories. To do that, we are investing in tools like Proxima, a digital twin of our middle mile inventory positioning system, which allows our team to test and iterate on inventory flow plans before going live. Proxima helps us more efficiently evaluate inventory processes between our buildings and stores, giving our teams a way to quickly understand potential downstream impacts, learn faster, and make inventory decisions with greater confidence.

We also saw meaningful gains in delivery speed. This past quarter, we fulfilled nearly 30% more same-day and next-day units than last year, and we will continue investing to get even faster. When we combine the impact of our in-store transitions, assortment changes, tech enhancements, and improvements in inventory reliability, it all adds up to an elevated experience that is being noticed by our guests. Overall satisfaction scores continue to improve across multiple measures of the guest experience, extending the momentum we shared with you last quarter and reinforcing that our continued investments in our teams, training, and our team's tireless execution are making a difference.

Beyond work that is helping our business today, we are also investing in the future of our operating network, from our stores to our supply chain, with these investments dedicated to making Target more reliable, more productive, and better positioned for long-term growth. This quarter, we opened 17 new stores, 24 new full-size stores so far this year, and now, we have more than 100 full store remodels underway, on our way to around 130 this year. These investments allow us to better serve guests and strengthen our business for the long term.

And because our stores serve as fulfillment hubs for more than 95% of our sales, their impact extends well beyond the in-store experience, bringing inventory closer to guests and enabling faster, more reliable, and more cost-effective fulfillment. That same end-to-end mindset is shaping how we are continuing to strengthen our global supply chain.

Since joining us earlier this year, Jeff England, our Chief Supply Chain Officer, has been focused on building on the strong foundation already in place and ensuring our teams work together to get the right product to the right place at the right time. We're encouraged by the opportunities we see to further simplify how we work and drive greater efficiency and productivity over time.

I'll close where I began. The progress we are seeing is encouraging, but consistency is not something you achieve in one or two successful quarters. It is something you earn every day and over time. We have a lot of work ahead to simplify execution, strengthen connectivity, and improve reliability, all in service of delivering sustainable, profitable growth.

And there is no easy button to make this happen. All of this work is just that: hard work. And none of this would be possible without the incredible commitment of our team members across our stores, supply chain facilities, service centers, and headquarters locations.

This has already been an extraordinary year of change, and our teams have met every challenge with resilience, flexibility, and an unwavering commitment to our guests and to each other. To every team member listening today, thank you. Your dedication is what brings our strategy to life, and it is what gives me confidence in our ability to meet our full potential as a company.

With that, I will turn the call over to Jim.

Jim Lee - *Target Corp - Chief Financial Officer, Executive Vice President*

Thanks, Lisa. As you heard from Michael, Cara, and Lisa, our second-quarter results provide another encouraging proof point that our strategy is gaining traction. We saw broad-based growth across multiple dimensions of our business, and importantly, the strength on the top line translated into strong underlying profit performance as well.

For the quarter, net sales of $26.5 billion were 5.3% higher than last year. Comparable sales increased 3.8%, driven by a 3.6% increase in traffic, with average ticket about flat. Store comparable sales grew 2.7%, while digital comparable sales increased 8.7%, led by growth of more than 25% in same-day delivery. As Cara shared, we saw particular top-line strength in Fun 101, food and beverage, and beauty categories, growing our confidence that when we invest in differentiating what we sell and how we sell it; our guests respond favorably.

On a two-year basis, Q2 net sales compounded annual growth rate was 2.1%, 30 basis points higher than in Q1. We also continue to see strong growth beyond our first-party business. Specifically, gross billings from Roundel grew nearly 20%, Target Plus marketplace GMV grew more than 40%, and Target Circle 360 membership revenue increased by over 40% as compared to last year. These areas continue to drive outsized top and bottom-line growth for us, driving greater relevance, loyalty, and choice for our guests.

Moving down the P&L, our second-quarter gross margin rate of 33.7% was 4.7 percentage points higher than last year, including 3.7 percentage points of benefit from IEEPA tariff refunds. Excluding that impact, our gross margin rate was about 1 percentage point higher than last year as we lapped last year's elevated markdown and purchase order cancellation costs, and benefited from continued growth in our higher-margin revenue streams. In addition, we saw strong merchandising performance that was partially offset by continued intentional investments in value.

Our Q2 P&L included a $994 million pretax benefit from tariff refunds, which was recorded as a reduction of cost of sales. As we discussed throughout last year, our teams have been working incredibly hard to manage the tariff environment with a continual focus on protecting value for our guests. Our 4.6% full-year adjusted operating margin rate in 2025, which represented a significant step back versus historical rates reflected our investment in value in the face of meaningfully higher tariff costs we faced.

And that commitment to providing value for our guests has not changed. We continue to look first to find other means to reduce the impact of tariffs, including changes to the country of origin, collaborating with vendors to find offsets, and adjusting our assortment. Those tactics have helped us to reduce tariff pressure while continuing to deliver the combination of style, design, and value consumers expect from Target. And as you heard from both Cara and Michael earlier, we have reduced prices in over 10,000 items in the last year, have held or lowered prices on 95% of our school supply assortment this back-to-school season, and plan to continue lowering prices to drive incremental value for our guests on every trip to target.

Moving back to the P&L, SG&A expense grew 7% versus last year, in line with our Q1 trends and with the guidance I provided during our financial community meeting in March. This reflected higher compensation costs, including our investments in additional hours and training for our field teams, along with higher incentive compensation and planned spending related to capital projects. Our Q2 SG&A rate of 21.6% was about 30 basis points higher than last year.

Overall, our second-quarter operating margin rate was 9.6% compared with 5.2% last year. Tariff refunds accounted for 3.7 percentage points of benefit to this year's rate. Excluding that impact, our operating margin rate was approximately 70 basis points higher than last year. Altogether, we delivered second-quarter GAAP and adjusted EPS of $4.11 compared with $2.05 last year. Tariff refunds contributed $1.65 to EPS. Excluding these refunds, both GAAP and adjusted earnings per share were approximately 20% higher than a year ago.

Now, I want to turn to capital deployment and begin where we always do with our priorities, which have been consistent for decades. We first look to invest fully in our business in 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 annual increases. And finally, we look to deploy any excess cash beyond those first two uses to retire shares over time within the limits of our middle A credit ratings.

Regarding our first priority, we have deployed approximately $2.4 billion in capital expenditures so far this year, up nearly 30% from a year ago, reflecting intentional incremental investments in new stores, full store remodels, in our supply chain and technology capabilities. We continue to expect approximately $5 billion of CapEx for the full year as we invest behind the strategic growth priorities we outlined in March.

Regarding our second priority, we paid $518 million in dividends in the second quarter and just over $1 billion through the first half of the year as we balance our long-standing commitment to the dividend with our goal of moving towards a 40% payout ratio over time. And finally, regarding our third priority, we continue to expect to have capacity within our long-standing capital deployment goals to resume share repurchases in the back half of the year.

As always, the magnitude and pace of future repurchases will be governed by our operating outlook, cash generation, capital expenditure plans, and our commitment to maintaining our middle A credit ratings. Inventory was $13.2 billion, up approximately 3% from last year, supporting our plans to continue growing the business and our focus on continuing to further improve in-stock levels, particularly in our faster turning frequency categories. Finally, our trailing 12-month after-tax ROIC was 15.4% compared with 14.3% a year ago, reflecting the strong operating profit growth we've seen this year.

Before I turn to our outlook, I want to recognize our incredible team. We've asked a lot of them this year as we've moved quickly to bring our clarified strategy to life, and I'm incredibly grateful for their energy, focus, and commitment. We've accomplished a tremendous amount in a relatively short period, and that work is increasingly visible in our financial performance and improving guest satisfaction metrics. That progress is a direct result of our team's execution and commitment to serving the millions of families who shop Target every day. I want to thank them for everything they've done and for the continued urgency they're bringing to the work ahead.

So now, let's turn to guidance. Given our performance through the first half of the year, we are raising our guidance for full-year net sales growth to a range around 5%, 1 percentage point higher than our prior outlook. On the operating margin line, we now expect our full-year rate, excluding tariff refunds will be in a range around 0.5 percentage point higher than last year's adjusted rate of 4.6%.

On the bottom line, we are raising our EPS range from $7.50 to $8.50 up to a range of $9.90 to $10.90. This updated range includes $1.65 benefit from tariff refunds recognized in the second quarter but does not include the impact of any potential additional refunds through the balance of the year. As such, excluding the impact of tariff refunds, the midpoint of our guidance range represents a $0.75 increase versus the prior range.

So to close, we're encouraged by another quarter of healthy top-line growth and improving underlying profitability. At the same time, we have a lot more work ahead of us to realize the long-run potential of our business. We'll continue investing to drive sustainable growth, maintaining discipline across our P&L and balance sheet, and staying focused on delivering the style, quality, and value our guests expect from target.

With that, I'll turn it back over to Michael.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Thanks, Jim. Before we move to Q&A, I want to bring together all that you've heard from our team today. We entered the year with a refreshed strategy to put us on a new trajectory, one of sustainable growth. That means serving the busy families that shop us with that Only-at-Target blend of style, design, quality and of course, incredible value. We aspire to be the place families can count on for what they need while also helping them discover what's new, what's next, and what will bring a little more joy to their everyday lives.

The team has been executing with urgency and discipline against that strategy. And as you've heard today, we can see that coming to life across our business in exciting ways. To be crystal clear, we have much more work to do, and we're early in our journey. And we're encouraged to see proof points that are compounding with each investment building on the last to create a whole that is greater than the sum of its parts. Our job now is to execute consistently and keep earning every trip from every guest we have the privilege to serve.

So now, before I close, I want to pause and thank our team. We've already asked a lot of them this year. And as we turn our focus to the balance of the year, we continue to ask a lot. So to the team, a heartfelt thank you. I'm incredibly grateful for all you've done and all that you continue to do to shape this new chapter of growth for Target.

With that, we'll turn to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rupesh Parikh, Oppenheimer.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Good morning and thanks for taking my question. Also, congrats on a nice quarter. So just going back to the traffic momentum, I know one and two-year basis, we saw a really good momentum. Just curious how you guys feel about the sustainability of that momentum. And then just given you're seeing really healthy top again stores, are you surprised that home and Parel, maybe you didn't see better performance, just given the natural traffic gains. Thank you.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Thanks for the question, Rupesh. I think traffic is actually a great place to start because when we see the strong traffic response like we did in Q2, and we've seen so far this year, it's just a reinforcement to us. The guests are responding to the change that we're making and that we're earning more and more trust that's translating to more and more trips to target.

And when I think about healthy indicators of sustainable long-term growth, traffic is at the top of that list. And to see the pre- and post-response from guests of where we've activated within the store is one of the things, I think, is most encouraging for us as we look at all the change to come.

Cara, do you want to maybe walk through some of the things we saw in the second quarter that we're pleased to see the guest response to.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Absolutely. And I think what's really encouraging is start with some of the changes that we actually highlighted in Q1, so baby, wellness, beauty, we saw sustained growth from those businesses and sustained traffic growth. Then you layer on the changes that we made in Q2 with really big changes in the food and beverage business, seeing an acceleration in that business as well from both a growth -- a guest engagement and a traffic standpoint. And then we also have talked a lot about Fun 101 and the impact that that's having on our business.

So I think, Rupesh, what we're looking at is sustained growth for each of the categories. If I turn to home and apparel, just to be clear, we are not satisfied with the performance in either of those businesses, and there's more work ahead in 2027 and beyond. But you'll see us continue to drive focus and clarity on what needs to evolve there.

And what's encouraging is the places that we have evolved and made changes. In both businesses, we are seeing the guests respond as well as the traffic follow there. So apparel in Q2, we focused on our kids assortment. We relaid our kids floor pad, and we're actually seeing our kids basics running double digits, our tween art class brand up 50%. And so we're seeing the guests respond. In home, we've talked about decorative accessories, the change there, as well as enhancing the in-store experience, and we're seeing the performance follow.

So those proof points give us confidence that we're on the right path. We're going to continue to execute with discipline and work through our plans in those businesses for the balance of this year and into next year.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yeah, to Cara's point, I mean, we're eager to build on some of the momentum we've seen where we've made change in the categories that still need some work. And it was good to see growth across all of our key merchandising categories, but flattish growth in apparel and home isn't what we strive for over time. And the earnings power potential of those two high-margin categories returning to a place of more sustained growth is I think something we look forward to.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Great. And a quick follow-up question, just on back-to-school, some positive commentary in the prepared comments, but is there anything else you can share in terms of expectations or addition to what you're seeing currently?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

We will probably fill up the rest of the time talking about back-to-school, back-to-college. I think it might be a favorite season of some of those on the call here. I'd headline by saying we're encouraged with what we see in back-to-school and back-to-college so far. And we have the benefit of being out in stores a lot this time of year and to hear our guests play back what they're excited about, gives us confidence that what we're offering for back-to-school and back-to-college is really resonating.

Cara, do you maybe want to provide a little more color on what we have in back-to-school and back-to-college right now? In many ways, it's a perfect example of that meeting with style and design and punctuating with incredible value.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

I think, yeah, in the middle of really critical weeks here, but we are encouraged, and we're seeing the busy families are responding when we bring them that combination of newness, great product at compelling prices. Back-to-school, we are seeing broad-based strength in everything from school supplies, to kids apparel, to our beauty assortment and beyond. It was exciting to kick off the season with that LoveShackFancy collaboration, which was -- it turned out to be our largest design collaboration in our history, which we were thrilled about.

It's an example of how we're evolving our collaborations to really bring newness across categories, but also school supplies, pastel notebooks, $5 Cat & Jack Basics, that combination of style design and value is really resonating.

And then in back-to-college also seeing strength, a highlight for us. We hit on the Heyday assortment. But that's a great example. We took a category, and we brought the target magic of style, design, and value, $5 gadgets, $10 headphones and on-trend colors and stylish patterns, and we're seeing a really strong response to that as well as dorm essentials. So encouraged, we've got a few big weeks ahead of us, and so -- but we're encouraged by what we're seeing so far.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Back-to-school as a topic, it's a place we're executing the fundamentals so well matters so much. We know we don't win in a season where every school peaks at a different time, if we don't have inventory at the right place at the right time, and if we aren't providing a great guest experience. I couldn't be prouder of how I see our teams show up in stores right now in all the stores I've been in.

Lisa, do you maybe want to provide a bit more color on how we thought about showing up in the right way for the guests from an experience standpoint?

Lisa Roath - *Target Corp - Executive Vice President, Chief Operating Officer*

Yeah, I think it's really important to call out that the fundamentals that Michael mentioned played a role in delivering that consistently elevated experience and it came to both back-to-school and back-to-college. If I look at back-to-school specifically, one area of improvement that we're really proud of is our in-stock position. We know that's the time of the year where if you're a guest coming in, you want to be able to find every item on your child's list. And this year, we were able to deliver meaningful improvements in inventory availability on all of the top items across that list. And so we'll continue to bring that same level of disciplined execution to how we're thinking about those important moments and the everyday moments for the balance of the year.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Thanks. Good morning and thank you for taking my questions. So my first question is just following up on the apparel and the home decor side, can you maybe talk about what you've seen in terms of what just happened with the reset there? And as you diagnose the turn in those business because those categories are so important to the target merchandising experience, is it simply a function of the longer lead time and that's making the changes just happen more slowly where maybe in some of these other categories, you're able to affect them faster because it's more third-party brands?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yeah, you're spot on in many ways, Chris. Those are longer lead time businesses, and so change doesn't come as quickly there as it might in a category like food and beverage. As we embarked on the year. We said home would be a multiyear journey. Cara talked a little bit about some of what we're seeing in apparel.

But let's spend a second on home. I get really excited about the plans that Mar and team have to get that business to a better place over time. And it will take some time. And where we're making the beginnings of change, we're seeing the green shoots of a good guest response.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Absolutely. I think in Q2, decorative accessories, as we mentioned, which is sort of the center of home, really focal point that elevates the home experience is where we improved our assortment but also evolved the experience. and those stores are outperforming. In Q3, just in front of us, we've got major change coming in betting, in kids home and in our bath assortment.

As we head into 2027, we've got big changes coming in our kitchen and dining. And so, themes, I would say, sharper curation, really compelling value. But again, leading with that style design and value across the board, as well as elevating the experience.

And so, your point is those are longer time -- longer lead time businesses. And so it does take us time to work category by category, but we're encouraged by the places that we've made change, and we've got our plans laid out in the quarters to come.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

The only thing I might add, Chris, is not specific to apparel and home, but across the chain that we get excited about driving not just this year, but next year and the year to follow and the year to follow that. is there's healthy tension between the urgency of how much change to drive and our ability to execute that change well across 2,000 stores and a 400,000-person team. And I view that as a real high-grade opportunity. It means that we've got years of ideas of what we want to get done. And it's on us to sequence and prioritize those with clarity.

Just yesterday, we were talking about a lot of the plans in place for '27 and even '28 in some of the places where lead times matter most. And we get a ton of energy by thinking about what's possible. But it's on us to pace that change in a way we can execute well. If I had to pick something that I think is a truly remarkable outcome the team delivered so far this year is elevating the guest experience alongside driving so much change in stores. that's a tricky one to punch.

And the progress the team has made in our inventory reliability, the progress we're seeing and the guest satisfaction scores played back to us at a time when we're changing a lot within the store, it's just truly a testament to the work the team has done so far this year.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Understood. And then my follow-up for Jim is, are there more refunds potentially coming later this year? And then as we think about sort of the underlying earnings base into 2027 -- previously, you've talked about $9 to $10, how do you think about lapping these tariff refunds? Like what's the proper jumping off point for 2027?

Jim Lee - *Target Corp - Chief Financial Officer, Executive Vice President*

Yes. What I would say is the tariff refund we recorded in Q2 accounts for the significant majority of IEEPA tariff refunds we applied for to date, and we do expect some more to come. The way I would look at the underlying performance is we are trying to focus on adjusted EPS, excluding the tariff refunds. We think that's a better measurement, just especially given the timing of how the refunds are coming through our P&L. And then as you saw in Q2, our underlying -- our adjusted EPS, excluding tariff refunds were up 20% versus prior year. And year-to-date, that's up 24%. So that's the number we probably want everyone to anchor on to grow office going forward.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

We wanted to ask about your philosophy on price investments. I know in the prepared comments, you spoke to the 10,000 items with lower prices so far this year, and you're looking to do more, but at the same time, you've also stated you're pleased with your price gaps, especially in food and beverage. So I just wondered if you could reconcile that and also just tell us a little bit more about how you think about it into the end of the year.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. Thanks for the question, Kate. We feel really good about our price position, and that's what our team does every day to make sure that consumers are finding incredible value on our shelves. And you should hear us always talk about value as and expect more and pay less as the brand promise for a reason. We want to lead with style and design and differentiation.

A lot of the changes that we've made across the store are doing exactly that in more and more categories. But we want that smile you see when you see a great sweater on the apparel floor bed to get bigger when you flip over the price tag and see the price of it.

And so it needs to be both for us every single day. And I think the evidence of that is true and the actions you've seen us take so far even just this year. We have lowered prices on over 10,000 items over the course of the last year. We're proud of that price investment. We think it matters to consumers right now. And we want that to be coupled with more and more differentiation across the floor pad.

Cara, feel free to add if there's anything else you'd want to pushout there.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

I think you said it. It's always looking at both sides of the equation. And I think we have a long history of being competitive on price. We've demonstrated that this year. We'll continue to do that across the board. And we're looking to bring new affordable options throughout our assortment. And so a business like toys, we talked about that in Q1, we did more in Q2. We changed the experience. We added a $5 Barbie statement and guests are responding to those affordable prices at $5, $10, $15 and $20. So to Michael's point, this is a huge part of what defines target value in our unique rain in retail. It's what our teams are focused on each and every day.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

And as a quick follow-up, I wondered if you could speak to the cadence of comp throughout the quarter.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes, I'm happy to start, Jim, feel free to add, but we saw strength across the quarter. And I think broad-based strength is the headline I would leave with on a bunch of fronts. We saw that across guest demographics. We saw that across categories, and we saw strength throughout the quarter. as you heard us talk about, we're really encouraged by how back-to-school, back-to-college is going so far as well.

Jim Lee - *Target Corp - Chief Financial Officer, Executive Vice President*

Yes. And, Kate, if I can add, yes, we did see consistent strong top line growth across the months and across income brackets as well.

Operator

David Bellinger, Mizuho.

David Bellinger - *Mizuho Securities USA LLC - Director*

Two questions for us. Strong comps again this quarter. Can you give us some more insight into the performance across the store cohorts or quartiles. Is there a good subsegment in the store base that's still underperforming the company average and can be lifted with remodels or some other factors?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. I'd go back to broad-based being the theme that we saw in the quarter. With the strength of our top line driven by traffic, I mean, we really saw that happen across the chain. And your question is a fair one, and that we know we haven't brought the very best of our thinking to every single store. That's why those investments in remodels are so important.

That's why the change we're doing that touches the whole chain when we make the changes to half of our center store grocery presentation like we did in matter so much to bringing the latest and greatest thinking across the chain, but the investments and the step-up investments that's come with some capital and expense costs this year, is investment, we're really excited about. We know we see a reliable strong guest response to when we remodel a store and the lifts we see in those stores are so important. Another place where you'll see us continue to invest in stores. is in new stores. At least I think it might be worth walking through a little bit of kind of the response we're seeing and the 24 new stores that we've opened so far.

Lisa Roath - *Target Corp - Executive Vice President, Chief Operating Officer*

Yes. I mean you're entering back to one of our most important priorities, which is delivering that consistently elevated experience. Some of that happens through new stores and remodels and then some of that also happens through investments that we make in our team. I think on the new store and remodel side, we announced -- we opened 17 new stores in the quarter, which is a huge quarter for us, 24 so far this year. We've advanced more than 100 remodels we get excited about those investments because our guests and our communities get excited about those investments.

They bring the best of Target closer to more guests, which is one of the best ways that we can get our story out there in the world. I think when it comes to consistently elevating the experience that our guests have in our existing stores, one of the best ways that we do that is through investing in our team. We've talked about our targeted investments in payroll this year. We've talked about training, all of that helps elevate the experience that our team is ready to get out there and bring to our guests. And so we'll continue to make sure that we're investing both in the fleet from a property standpoint, but then also in the experience that we're delivering through our team.

David Bellinger - *Mizuho Securities USA LLC - Director*

Great. I also wanted to follow up on the Fun 101 category, up double digits again this quarter. Can you provide some more context of the components of that, particularly around the trading card category? Is that an area of the store that's accelerating further and getting better product allocation from some of the larger trading card producers? And just what's the next step for building out this category.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. We're excited about the guest response, the changes we've made in Fun 101. And as all of you know, that's a category where we're a little farther down the path of bringing the change to life because we got started at the end of last year. We've continued to make change. and there'll be more change to come.

Cara, do you want to zoom out and kind of talk about the journey we're on in Fun 101.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Yes. I think it's a perfect example of making really sharper choices around where we invest our space. As we thought about last year, we got really clear on the categories where Target had a right to lead. And we also, this year, we're clear about where was our space not working harder for us. And so we acted on that, and we completed the largest space move in our company's history this past quarter.

And that allowed us to bring in and create truly unique destinations and sells you think about a category like toys, where we simplified the shopping experience, it allows us to actually lean into brands like LEGO and that pushback wall and some of the other items I talked about.

In pop culture, we have introduced an entirely new fandom experience and destination that leans into things like trading cards and collectibles, but also exclusive collaborations into one cohesive experience. We talked about our Pokémon collab in Q1. Well, in Q2, we actually had our second drop. We brought that to life together. And so we are thrilled to celebrate fandom with our guests with busy families.

trading cards is certainly a part of that, but really, it's all those top culture and fandom categories that we're thrilled about. Guests are responding and we've got more to come.

Operator

Corey Tarlowe, Jefferies.

Corey Tarlowe - *Jefferies LLC - Analyst*

I guess the sales recovery has been very impressive. And I think that what strikes us is that it feels like many of the underlying financial building blocks are all improving simultaneously. So that's inventory productivity, traffic, higher-margin revenue streams. I guess the bigger strategic question that I have is as you look out over the next three to five years, where do you see the greatest opportunity to further enhance the earnings power of the business that investors may not be fully appreciating today.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Yes. Thanks for the question, Corey. I'll go back to some of what you heard us talk about in our prepared remarks. As we started the year, we laid out year one of a plan and we're only two quarters into that work. There's a lot in front of us to continue taking the momentum we have in some areas like a consistently elevated guest experience, like inventory liability, like transforming categories for a sharper point of view on where we're uniquely differentiated and have a right to win. But there's way more of that in front of us than is behind us at this point.

And -- so we sit in, I think, the appropriately healthy place of pouring gas on what's working and making sure we're taking the learnings from the things that guests are responding to so positively, while being clear eyed about the work still in front of us. You heard us talk about the opportunities ahead in apparel and home. I think those are some good category examples where we've got work to do. But our goal isn't 1 or 2 quarters of good results. Our goal is sustained profitable top line growth over time, and we're confident we've got the clarity of strategy to give us a long runway of work in support of that goal.

Corey Tarlowe - *Jefferies LLC - Analyst*

Understood. And then just as a follow-up, I think looking at the progress that you've made over the last year, as you mentioned, clearly, a lot of it has been merchandising led. What I'm really wondering is, are there any aspects of the merchandising strategy that surprised you the most? And are there any areas where you continue to see substantial runway for improvement that you think you haven't really touched enough yet to this time?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Cara, maybe let you expand on kind of some of where you're most excited and where you see the most opportunity. But, Corey, I might recharacterize even how you framed your question. Yes, we talk a lot about the product we sell. We know that seeing the lens through the categories that we talk about is important. But there is no bigger team sport than retail.

And so, so much of what we're focused on as we activate as a team is making sure we're doing it as one team for guests to respond well to some of the changes we're making. It requires a true understanding of the guest that comes from insights and analytics capabilities across so many teams.

It comes from, yes, strong merchandising leadership to make sure we're picking our curated point of view where we uniquely serve those guests well. But then it's an entire 400,000-person team that brings that to life from supply chain team that flows the product that if it's not there at the right time, all the best merchandising plans don't mean anything to the store team that brings that to life in such a uniquely target human way at the store level. to the digital teams that more and more often create the front door where people go before they come to the store. And so I could go on and on about all the teams it takes to bring it to life.

And so -- you hear us talk the category a lot in a setting like this, but just to pause for a second. Yes, it's merchandising, but it's everything. And one of the things I get excited about your first question touched on this, is we're making progress across all of that. And I think we see that as a recipe to add up to something greater than the sum of its parts over time.

Cara, if you zoom back into the merchandising specific part of that question, what would you like to add?

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

Yes. And I would just maybe anchor where I started my remarks today talking about the seven priority areas that we've laid out. Those aren't just merchandising priorities. Those are target priorities. And so we think about -- they are at different stages of their transformation and their journey for us to really truly achieve a bold ambition.

And I think beauty is a great example. This is a category where we've had really strong performance over years. We've got a new ambition. And so, while we're embarking upon the next month is our BD Studio that isn't just bringing new assortment in, that's actually bringing an entirely new immersive experience.

Lisa talked about how we're going to have dedicated beauty advisers. We're incredibly excited about this next chapter for us. And so I think that's one example where, yes, we brought in new beauty products in Q1, we'll bring them in, in Q2. We'll continue to bring those in. And our ambitions are much greater for each of these seven areas. And so you're going to continue to hear us talk about them. and how we're going to evolve in the years to come.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Operator, I think we have time for one more question.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Hey, good morning, everyone. Thanks for taking the question. Actually, putting together, Michael, what you said and Cara said, if you take the merchandising reset as a whole, take the entire store as an entity, and relative to Investor Day targets of how much of the store and product and planograms you can touch, can you give us a sense, are you -- have you touched 30%, 40%? Have you touched 50%, 60%? Where are you in that journey? And if you agree that product and fashion cycles will be a little shorter and quicker, how are you prepared to continue evolving?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

We think about where we're at two quarters into the year, we laid out a plan with clarity on the change we wanted to drive this year. And I think you heard Lisa say there's no easy button but to do the work. And so the team has been hard at the work, and we're pleased with all the change we've driven so far. We're extremely pleased with some of the guest response we see to that change. We know we aren't going to bat 1,000. We're not going to get it all right or should that be our goal. We're not driving enough change if our expectations that everything works with perfection. We really like the betting beverage we've seen so far this year, and those changes being met with a strong positive response from guests.

In terms of the percentage way through change, I actually might reframe that, too, because as we think about our ambition in some of the places where you heard Cara describe where we want Target to truly be loved and famous for over time with our guests. We're going to be at that work for years. And so yes, we might be a certain percentage of the way through this year. And that's one way to measure progress. But our time horizon is way longer than just this year's plans. And so you can expect us to continue to innovate and lead into change in support of the priorities that we've talked about, not just Q3, Q4 of this year, but in '27 and '28 and beyond.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

And then a quick follow-up on the all-important the home and apparel, is that a -- the amount of newness that's coming and we haven't gone to introduction? Or are there some batting average, meaning some product just hasn't hit and there needs to be more change? Like how would you describe the evolution in those two categories?

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Cara, I'll let you decide if there's more to add there. But the thing I'll come back to, Simeon, is that where we are making change within those categories, we're encouraged by what we see. We just have a lot more work to do. Now, the beauty of a category like apparel is pretty soon the seasons change and a whole new assortment flows in for the fall. We're excited for what we expect guests will find as we get into the back half of the year here. And we've said all along, we expect home to be a multiyear journey. And the team is hard at work on that journey, and we get excited for what that will deliver over time.

Cara Sylvester - *Target Corp - Executive Vice President, Chief Merchandising Officer*

That's just what I would add to. There's different cycles in both home and apparel. We talked about kids, really important cycle for what we're at the moment that we're in right now for back-to-school and back-to-college. As we head into the fall, we're excited about what we're doing to simplify the experience and bring in really exciting products into the women's space, and you'll continue to see us lean in with Q4 with a different apparel cycle into Q1. And so, there's many cycles in the apparel. And so as we work through those cycles, you're going to continue to see us bring that combination of style, design, and values to life.

Michael Fiddelke - *Target Corp - Chief Executive Officer, Director*

Thanks, everyone, for joining today. I really appreciate your questions and support.