

US retail sales propelled Target's strong Q2 performance—but the COVID-19 delta variant might complicate H2

Article

By the numbers: Target's total comparable sales grew 8.9% year over year (YoY), hitting \$24.83 billion in its fiscal Q2 2021 (ended July 31, 2021), per its recent earnings report. This represents a slowdown from the same period last year when the metric increased 24.3% YoY—likely because the closure of other stores at that time pushed more traffic to Target.

Here are other big takeaways from Target's earnings:

- **Digital comparable sales jumped 10% YoY, reaching \$4.22 billion**—a major slowdown from last year when it soared 195% YoY, thanks to the pandemic-driven surge in ecommerce.
- **Target's same-day services like in-store and curbside pickup drove digital sales and surged 55% YoY**, but also reflect a significant deceleration from Q2 2020, when the metric exploded 273% YoY.

How we got here: Industry tailwinds propelled Target's performance in the quarter, with consumers ramping up overall spending post-vaccine.

- **US retail sales in May and June rose 24.4% and 15.6% YoY**, respectively, according to data from the US Census Bureau. And while July saw a 1.5% month-to-month decline in sales volume because of concerns surrounding the COVID-19 delta variant, yearly growth still hit 13.3%.
- Target saw significant growth in apparel sales, also reflecting industry trends as more consumers spent more time outside of their homes and ramped up nonessential spending on things like travel.

Opportunities: Eighty-three percent of Target's total sales in Q2 came from in-store sales—underscoring the importance of delivering enhanced in-store shopping experiences, something Target's latest moves can help it achieve going forward.

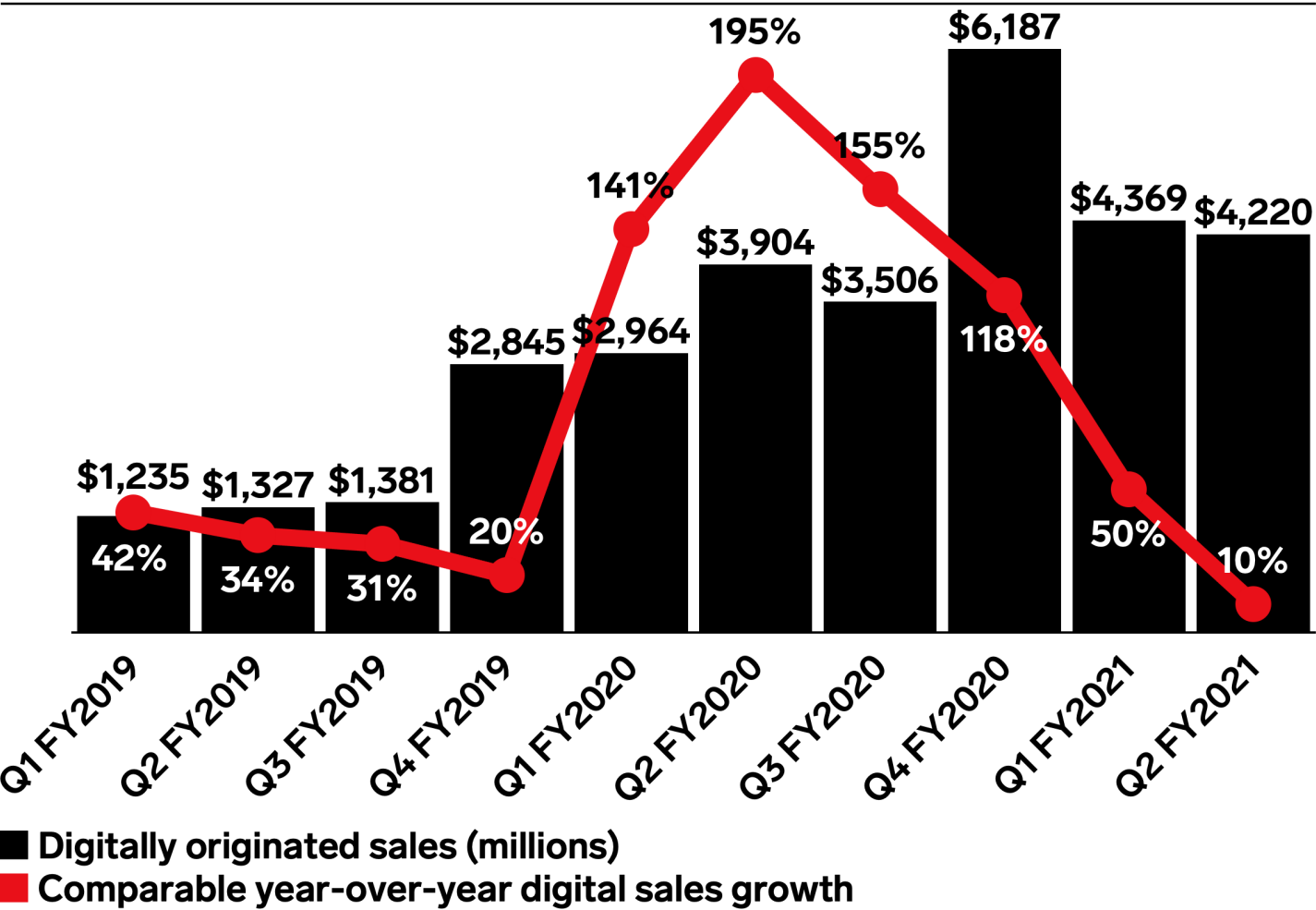
This month, the retailer unveiled Ulta beauty counters across more than 100 stores, which it describes as a “shop-in-shop” concept. **US beauty and cosmetic sales are expected to hit \$75.26 billion** this year, per our forecasts—making Target's Ulta tie-up a lucrative investment and positioning it for growth, especially as the holiday season approaches.

And in the last year, Target has deepened partnerships with brands like Apple and Disney, which should also boost in-store sales in the second half of the year. This should also allow Target to fend off competitors like **Amazon, which is planning to launch several brick and mortar locations in the near future.**

Looking ahead: On the company's earnings call, **Target CEO Brian Cornell** acknowledged that the COVID-19 delta variant could lead to a volatile H2 2021 and affect earnings.

It's unclear whether this could have a significant negative impact on Target's overall sales volume. But it may push consumers to shop online instead of in-store and increase use of same-day pickup services, mirroring 2020 shopping trends.

Target Digital Sales



Note: Target's fiscal Q2 2021 ended July 31, 2021
Source: Target, 2021
Methodology: This data is from Target's quarterly earnings reports.