AUG 17
Zak Stambor

Target's Q2 profit plunges 90% as it unloads unwanted inventory

Article

The news: Slashing prices on home appliances, patio furniture, and other discretionary items to rid itself of excess inventory caused Target's profit to plunge nearly 90% in Q2.

- Revenues rose 3.5% year-over-year (YoY) to $26.0 billion.
- Store comparable sales increased 1.3% YoY, and digital comparable sales grew 9.0% YoY.

- Operating income margin rate was 1.2%, a sharp dip from 9.8% last year.
- Q2 saw a profit of $183 million, down 89.9% from $1.8 billion last year.

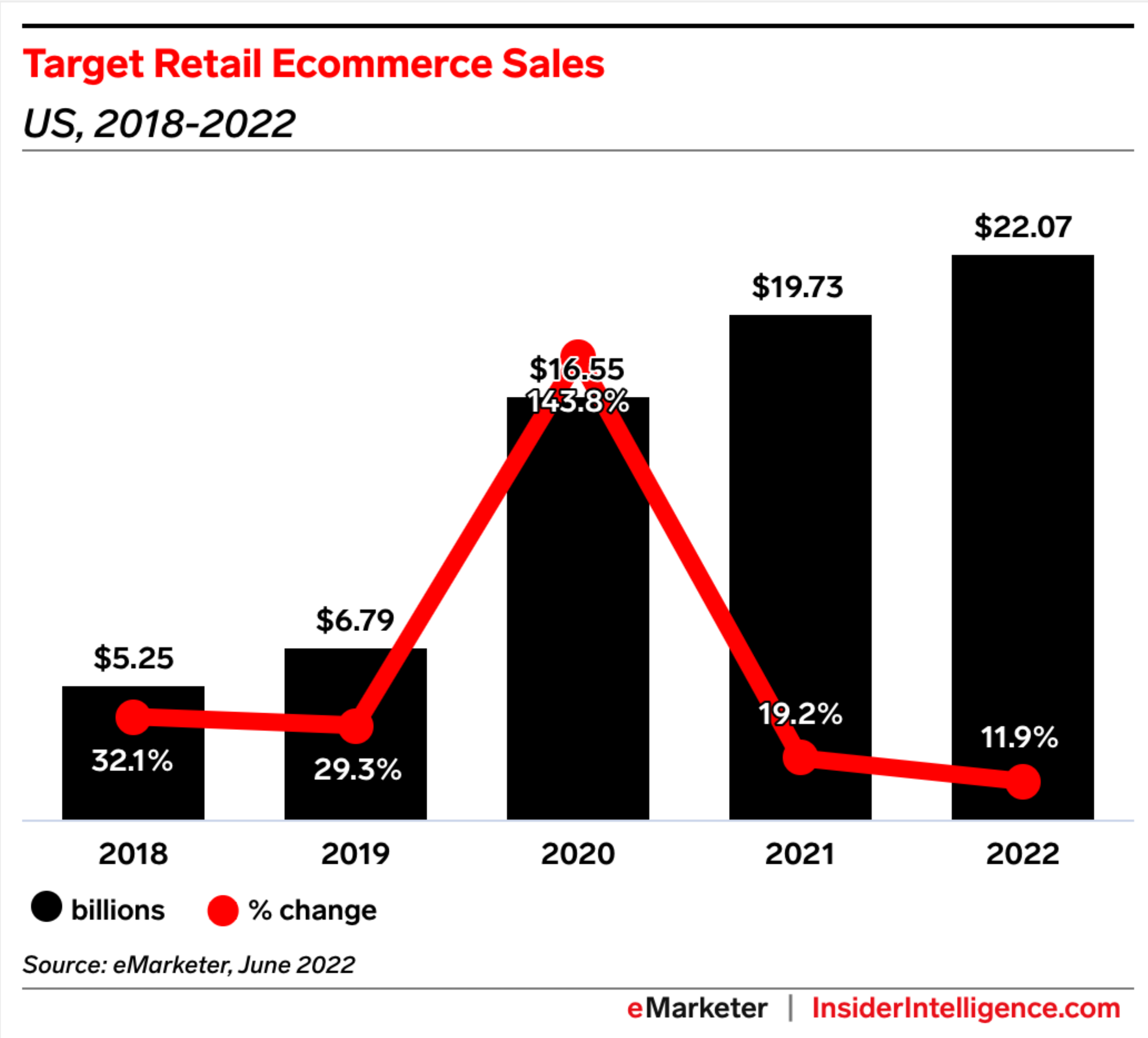
Investors had expected earnings per share of 72 cents—a far cry from the 39 cents that Target actually reported. That stood in sharp contrast with **Walmart**, which like Target had warned investors that it was taking drastic steps to adapt to consumers' shifting spending patterns, but beat analysts' expectations.

A speed bump: **Target's results were a clear dud**, as they fell short of Wall Street's expectations by a wide margin—even after the company lowered its guidance twice.

- However, the retailer sees the quarter as a temporary blip, as **it expects full-year revenue growth in the low- to mid-single digits** and its operating margin rate will be in a range around 6% in the second half of the year.

One reason for optimism: **Target's long-term strategy of leveraging its stores to fulfill online orders continues to pay off.**

- More than 95% of Target's Q2 sales were fulfilled by stores.
- Fulfilling online orders from stores saves Target about 40% per package compared with shipping them from big distribution centers, per Bloomberg.
- Same-day services, which include in-store pickup, Drive Up, and delivery via its Shipt subsidiary, grew 11% YoY, led by Drive Up, which grew in the mid-teens.



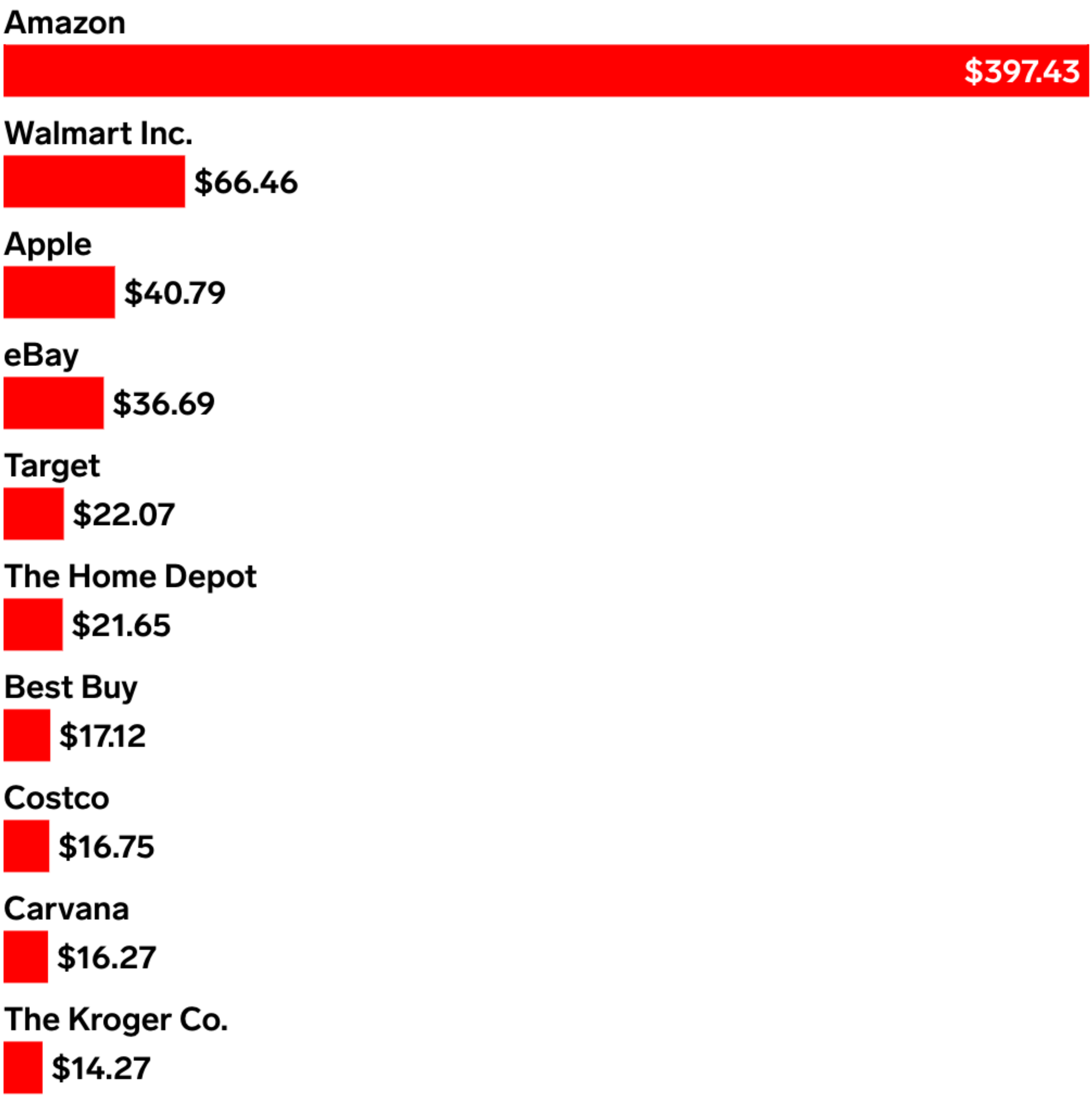
A second reason for optimism: The retailer's "bold effort to rightsize" its inventory via discounting enabled it to avoid the incremental costs of storing and managing the excess goods in softening categories. It also positioned Target to roll out "new, fresh and fashionable items" in faster-growing areas such as food and beverage, beauty, and essentials, CEO **Brian Cornell** said on the retailer's earnings call.

- Overhauling its assortment to be more in line with what consumers are looking for will also improve the customer experience, he said.

- With inflation continuing to weigh on consumers, Target is focusing on value. It has seen an uptick in private label sales, as well as a heightened response to promotions.

Top 15 Retail Ecommerce Sales, by Company

US, 2022, billions



Source: eMarketer, June 2022

eMarketer | InsiderIntelligence.com

The big takeaway: While there's no spinning a 90% dip in profit, Target appears to have endured short-term pain to position it for success in the second half of the year and beyond. In ridding itself of items people don't want and leaning in on value—in particular, its private label products—Target has plenty of reason for optimism.

Dive deeper: *See what our forecasting and retail & ecommerce analysts had to say about the earnings.*

This article originally appeared in Insider Intelligence's ***Retail & Ecommerce Briefing****—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*

- *Want to learn more about how you can benefit from our expert analysis? Click here.*