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Target's conservative guidance overshadows its stronger-than-expected Q4

Article

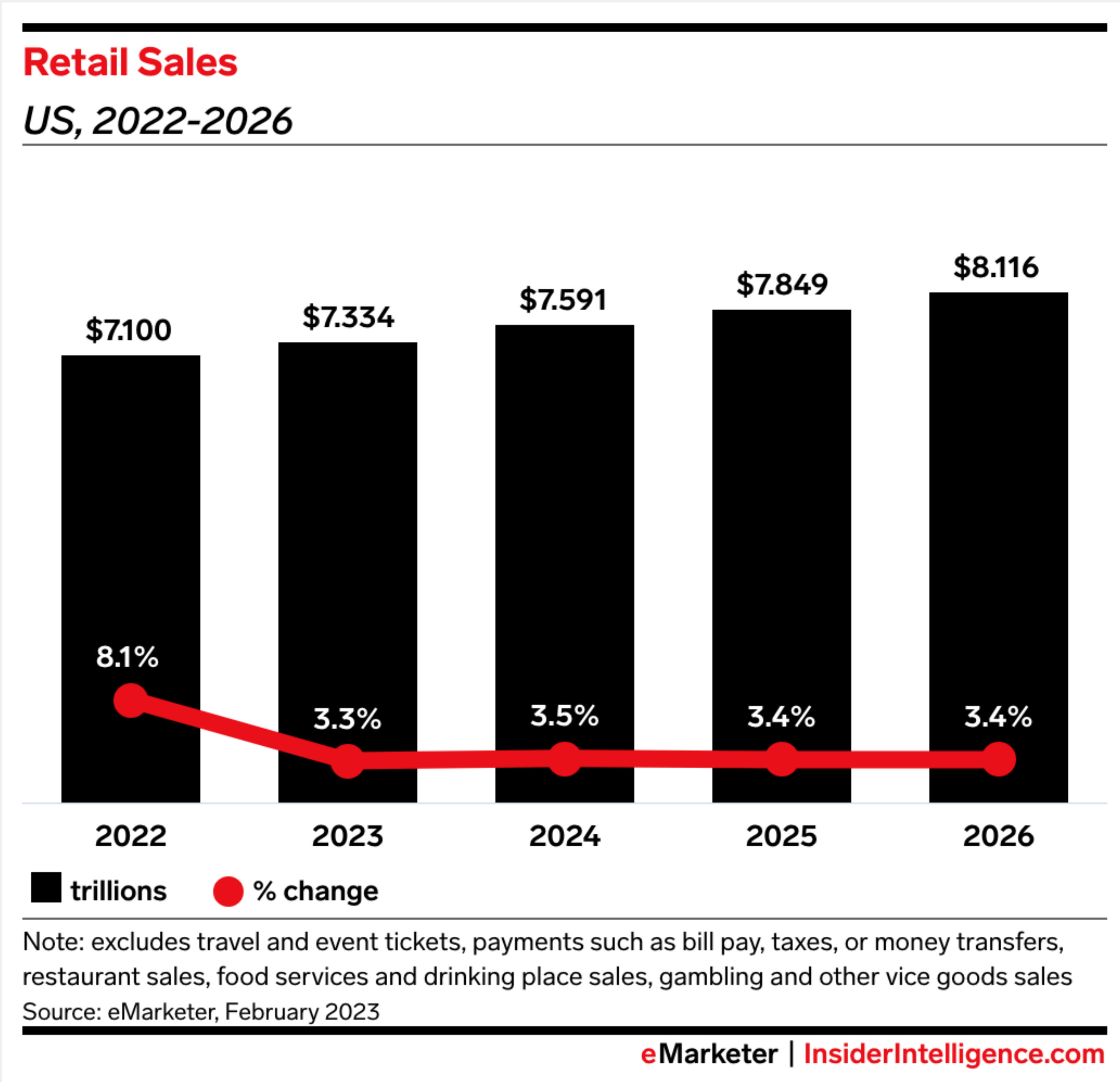
The news: **Target** beat analysts' expectations for the first time in the year as it generated a profit of $1.89 per share in Q4, significantly outpacing the $1.48 predicted by Wall Street thanks in part to its ability to use steep discounts to push past some of the inventory glut that marred its results earlier in the year.

- Comparable sales increased 0.7%, driven entirely by an increase in foot traffic.
- The retailer's same-day services (in-store pickup, Drive Up, and Shipt), which represent more than 10% of total sales, increased 4.3% in the quarter.
- Inventory at the end of the quarter was 3% lower than in 2021, with inventory in discretionary categories roughly 13% lower than a year ago.

But despite those stronger-than-expected results, the retailer offered conservative guidance of comparable sales having "low-single-digit decline to a low-single-digit increase" for fiscal 2023.

Slowing growth: Target is the latest in a series of retailers that expect sales growth to slow this year as consumers pull back on discretionary spending.

- A broad swath of retailers ranging from **Home Depot** and **Walmart** to **Dollar General** and **Steve Madden** recently offered cautious guidance for the year ahead.
- Consumers are pulling back on discretionary purchases as they focus on buying necessities, which in the case of Target mean groceries, beauty, and household essentials.
- **We expect US retail sales growth to slow to 3.3% this year, down from 8.1% last year**, which will make for a challenging environment for all retailers.



Target's advantages: Despite the challenging environment, Target has several factors working in its favor in the year ahead:

- Its traffic grew year-over-year in the final two months of the year, unlike other superstores like Walmart that saw traffic decline, per Placer.ai.

- Target's multipronged "stores-as-hubs" strategy is working as stores fulfilled 96.7% of the retailer's ecommerce orders in fiscal Q4.
- The retailer aims to build on that success by investing up to $5 billion to revamp its stores, open more sortation centers, and roll out larger store formats that streamline in-store fulfillment.
- It has strong private label brands, which are increasingly appealing to consumers looking to trade down to less expensive products.
- Supplemental Nutrition Assistance Program (SNAP) benefits make up a smaller share of Target's sales than some of its competitors. That means it should take less of a hit from the expiration of the program's temporary pandemic-era boost to benefits than Walmart and others.

The big takeaway: Target is showing signs of fixing the inventory glut that hurt its results over much of the past year and has begun shifting its product mix to better meet consumer demand. That should put Target in a solid position to navigate a difficult environment this year.

*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.*

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