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TGT.N - Q3 2021 Target Corp Earnings Call

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OVERVIEW:

Co. reported 3Q21 GAAP EPS of $3.04.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Target Corporation Third Quarter Earnings Release Conference Call. (Operator Instructions)

With that, I'll turn it over to Brian for his thoughts on the quarter and his perspective on our outlook. Brian?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Thanks, John, and good morning, everyone. Our third quarter results are consistent with what our team has been delivering quarter after quarter for years now. And they continue to demonstrate the extraordinary level of engagement we're seeing from our guests, both with our brand and with our team.

In the third quarter, comparable sales expanded 12.7%, on top of a nearly 21% increase one year ago. Consistent with recent quarters, traffic was the primary driver of this year's growth as our guests increasingly turned to Target to serve their wants and needs. Across our sales channels, store sales were the primary growth driver this quarter, while same-day services propelled our digital growth.

Since the third quarter of 2019, prior to the pandemic, Q3 store sales have expanded by $3.8 billion, while digital sales have increased another $3.1 billion. This provides a vivid demonstration of the flexibility of our operating model to serve our guests no matter how they choose to shop. All of these results reflect the level of guest engagement far beyond what many would have imagined a few years ago, when we started making huge investments throughout our business, in our stores, new brands, same-day services, supply chain, and importantly, our team.

Back then, Target was already known for our world-class team, a differentiated shopping experience, unique assortment and an iconic brand. But we knew there was much more to do. We saw a clear opportunity to build on that solid foundation, finding new ways to enhance our capabilities, while strengthening the bond with both our team and our guests. And today, those bonds have never been stronger. As I mentioned, within our digital capabilities, more and more of our guests are trying and embracing our industry-leading same-day services. Third quarter sales through these services have expanded by nearly 400% or $2 billion over the last 2 years. Through the first 3 quarters of the year, sales through these services have grown by more than $6 billion since 2019, a number larger than the total sales of many prominent retailers.

Beyond fulfillment capabilities, our balanced multi-category assortment is another key driver of flexibility and resiliency within our business model. The breadth of our assortment, both within and across our core categories, allows our team to quickly and seamlessly serve our guests, even when their wants and needs are changing rapidly.

In the third quarter, we saw consistent strong growth across our entire merchandising portfolio. More specifically, all 5 of our core merchandise categories saw a double-digit growth in the quarter, ranging from the low double-digits to the mid-teens, resulting in strong market share gains on top of unprecedented share growth in 2020.

And we're not slowing down in our efforts to serve our guests. We continue to invest in key partnerships that enhance our assortment and experience, including the opening of more than 100 Ulta Beauty shop-in-shops and our recent announcement that we're doubling the number of enhanced Apple experiences in electronics. Christina will provide more details in a few minutes.

In our conference call 3 months ago, we outlined multiple actions we're taking to support our inventory and in-stocks, given the supply chain challenges that have emerged throughout the pandemic. As you know, those pressures only intensified in the third quarter. And our team has done an outstanding job in the face of these challenges, identifying bottlenecks and finding solutions to keep inventory flowing throughout our network.

Although those efforts drove some incremental costs in the quarter, we view them as a continuation of the many productive long-term investments we're making in our business in support of the trust we have built with our guests. And obviously, our guests responded to these efforts with strong third quarter traffic, which we expect will continue in Q4 and beyond.

Beyond our supply chain, the team has done a great job navigating through broader cost pressures as many vendors have raised wholesale prices to accommodate higher costs within their businesses. As our team faced these cost increases, they maintained a guest-first approach and a focus on value while managing overall profitability as well. As a result, our business delivered strong third quarter financial results, from the top to the bottom of the P&L, while building on the trust we've established with our guests.

So I want to pause and acknowledge the incredible effort of our teams across the company, from headquarters to stores, from our merchandising, distribution and transportation teams to our sourcing offices around the world. Because of your agility, energy and selfless collaboration, Target delivered for our guests and our shareholders in the third quarter. And as we enter the fourth quarter and ramp up for the peak holiday season, we're really well positioned to continue delivering for all of our stakeholders and close out an already amazing year. I want to thank you for everything you do.

So the theme you'll hear in today's call is that we're excited and ready for the holiday season. We know our guests are excited to celebrate, following a year in 2020 when many families stayed apart due to safety concerns. This year, our guests have eagerly started their holiday shopping, as they respond to our holiday promotions, low price guarantees and our ongoing efforts to provide ease, reliability, safety and value across every shopping experience.

And importantly, we have taken multiple actions to support our guests during the holiday season and beyond. On top of the investments in inventory, in-stocks and value I outlined earlier, we've announced that we're hiring 30,000 new year-round supply chain team members to support our current and expected growth.

In our stores, we're providing our team members with more pay, flexibility and reliable hours this holiday season, offering more than 5 million additional hours to our existing team, an investment of more than $75 million over the holiday season. To supplement the additional hours from our existing team, we're hiring another 100,000 seasonal team members throughout the country, many of whom will have an opportunity to stay on with Target after the holidays.

And importantly, during a season in which our guests are busier than any other time of the year, our merchandising and marketing teams are focused on cutting through the clutter. That means we're keeping our marketing messages and promotions simple and our operations flexible to offer an easy and reliable experience for our guests no matter how they choose to shop.

And finally, while Target has already had an outstanding year, our team is looking ahead and not slowing down. We're continuing to invest in our future, in our new stores and existing stores, our supply chain and fulfillment capabilities, in our owned and national brands, and the safety and well-being of our team.

We're investing in Target Forward, an ambitious commitment to co-create an equitable and regenerative future. Together with our guests, partners and communities. All of these efforts are focused on advancing Target's leadership position within retail, taking a guest-led approach to everything we do and supporting our company values to care, grow and win together.

I have the privilege of working alongside this great team as they bring our values to life every day across every part of the company. I'm endlessly grateful for their passion and support of our guests of our brand and for each other.

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

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

Thanks, Brian, and good morning, everyone. Our third quarter results demonstrate what happens when our team lives out our purpose: to help all families discover the joy of everyday life. When we lead with our guests first, we continue to build upon the trust that we have carefully earned with them over time. And when our strategies are guest-led, we grow our business, which supports our team, our financial performance and our ability to give back to our communities and the planet.

As you heard from Brian, third quarter comparable sales grew 12.7%, reflecting double-digit growth in every one of our core merchandising categories. Even within those core categories, sales strength was broad-based, and virtually every area of the business grew over last year. This shows the power of our multi-category assortment in driving guest relevance and affinity for Target.

While growth came from all categories, third quarter performance was led by our Essentials, Beauty and Food & Beverage categories, all of which delivered comp growth in the mid-teens. These businesses continue to deliver substantial share gains on top of last year's gains through both trip frequency and basket growth.

In Essentials, growth was led by baby care, pets and over-the-counter health care categories. Strength in Food & Beverage was most notable in our fresh and frozen categories as well as in snacks and candy. Hardlines, which comped in the mid-teens on top of mid-30% comps last year, was fueled by incredible momentum in our toys and sporting goods businesses, which both saw comp growth north of 20%. Electronics delivered low single-digit comp growth on top of last year's comp of nearly 60%.

In our Apparel business, comp sales grew in the low double-digits despite unseasonably warm weather across much of the country. Performance was strongest in swim, young contemporary, intimates and hosiery. In Home, low double-digit comp growth was led by seasonal and stationary categories, and reflected record-setting performance in the back-to-school, back-to-college and Halloween seasons.

We have seen consistently strong results across seasonal categories, results that clearly signal that our guests are excited to celebrate the holidays with loved ones in new, old and reimagined ways. However they celebrate, our guests remain focused on meeting their wants and needs with ease, convenience and value. And as the holidays approach, they are turning to Target for these solutions. This is about more than just checking items off the list. Beyond working through the logistics of the holiday, our guests are looking to us to provide joy, and a joyous holiday is exactly what we plan to deliver.

We continuously evaluate our guests' mindset, which serves as a North Star for all our strategies and decisions. We remain laser-focused on their experiences with us and expectations of us. And we strive to build flexibility and agility into our plans to ensure we show up at our best for them during the holidays and all year round.

We are confident in our ability to navigate the broader retail landscape. And we're eager to share all that we've planned for the upcoming holidays. Whether our guests are rekindling old holiday traditions or finding new ways to celebrate the season, we're focused on making Target the destination that makes it easy, safe, inspiring and affordable to celebrate what matters most, the magic of spending time with those we love.

As John will outline in more detail, our teams are working diligently to get the right inventory to the right place at the right time. Doing so has driven some near-term gross margin pressure, an appropriate long-term investment in the relationship with our guests. Bottom line, based on the incredible efforts of our team, we feel good about our inventory levels heading into the holiday season.

In addition to the investments in our inventory position, we remain committed to providing great value with every trip to Target. And that value goes far beyond delivering exceptional everyday pricing. It includes offering compelling holiday deals, great quality products and an array of options to support all budgets, including accessible payment options.

Last year, we spread our promotions throughout the months of November and December to avoid crowding in stores, and we heard from our guests that they loved it. As a result, we're spreading savings throughout the season again this year to give guests flexibility to get the best deals on their terms whenever and however they choose to shop. We'll feature compelling offers throughout the season on top items, great weekly deals and surprise deals of the day, both in-store and online, as well as additional deals for Target Circle members.

And to reinforce value throughout the season, we recently announced the launch of our Holiday Price Match Guarantee, our most robust price match ever. When guests see Holiday Best deals at Target, they can shop confidently, knowing they are getting Black Friday sized savings with our best planned price of the season. In essence, any time they see a deal at Target, our guests can be confident it's the right time to buy.

We also know that our guests want flexibility, not just in what they want to buy and how they want to shop, but how to manage their budget as well. That's why with the help of 2 new partners, Sezzle and Affirm, we've added new payment solutions that allow our guests to buy what they need now, take advantage of our best deals and pay at a pace that works best for them.

With a strong inventory position and a great value proposition, we're able to lean into our uniquely Target assortment to build upon our traditional offering great gifting ideas and easy gathering solutions, like even more creative Gingerbread House making kits, Bullseye's top toys and gift sets for any budget. Spanning beauty, apparel, food and beverage and more, these gifting options will bring together the best of only our Target-owned

John J. Mulligan - *Target Corporation - Executive VP & COO*

Thanks, Christina. Every day, across the operations team, we focus on execution. On our supply chain team, the focus is on moving the right amount of inventory to the right place at the right time. In our stores, which fulfill more than 95% of our total sales, the team focuses on delivering a great guest experience across hundreds of millions of guest transactions every quarter. And on our properties team, the team focuses on optimizing our physical footprint, including the planning and construction of new stores and distribution facilities, along with our investments to maintain and enhance the productivity of our existing buildings.

Of course, all of these aspects of operations matter all year long. But in the fourth quarter, when we handle the largest volumes of the year, everything

In our stores, the team has been preparing for fourth quarter all year. And they're energized and ready to serve our guests throughout the season. This will be the first holiday season since we launched our new service initiative, which is all about empowering our teams and increasing their confidence to build authentic connections with our guests. Also new this year, we've rolled out a new point-of-sale system across more than 90% of our stores, providing more speed, efficiency and enhanced experience at both the checkout and our service counter.

To continue building on our industry-leading in-store Pickup and Drive Up experiences, we've been rolling out new capabilities all year. These efforts include capital projects to add permanent storage capacity in more than 200 high-volume stores, investing in flexible fixtures to provide temporary storage areas to support seasonal peak, adding thousands of new items to the list available for Pickup and Drive Up, doubling the number of Drive Up parking stalls compared with last year, and designating stall numbers to help our teams deliver Drive Up orders more efficiently.

Even as we're adding these new capabilities, we're also supporting our long-standing commitment to providing a safe shopping experience, maintaining the enhanced COVID cleaning and safety routines that we implemented throughout the pandemic. We've also been investing in team member hours, processes and training to prepare our team to handle record freight and fulfillment volumes this year, all while enhancing safety messaging and actively monitoring processes to protect the safety of both our guests and our team.

And of course, as Brian mentioned, our team is focused on being fully staffed across the store and supply chain throughout the holiday season. Our stores have been hitting their seasonal hiring milestones. And because of the advancements we've made in scheduling this year, average hours per store team member are running significantly higher this year in comparison to past years. In fact, unlike what you're hearing from many others, because of the investments we've made in pay and benefits and our focus on team member training and engagement, the hourly turnover rate in our stores is actually running lower this year compared with 2019, particularly for our newly hired team members.

And we're continuing to invest in our team. Following the recent rollout of the most comprehensive debt-free education program in the industry, we announced that to sustain our momentum through the holidays, we're offering pay premiums during peak periods in our stores and distribution centers over the holiday season. As we've said many times, our investments in the team are the most productive ones we've made.

Turning to the work of the properties team. We expect to finish about 145 remodels in 2021, having completed more than 40 remodels prior to the end of Q3, with more than 100 additional projects slated to wrap up before the holiday. The team also opened another 15 new stores in the third quarter, bringing the year-to-date total up to 30. Among those projects, we've opened new stores ranging from 11,000 to 160,000 square feet, which demonstrates the flexibility we've developed to design the optimal store size for an individual neighborhood, based on their local needs and available real estate in the market.

To increase the capacity and efficiency of our supply chain, our team has also opened 2 new distribution centers this year. In addition, we have 2 new sortation centers set to open in the fourth quarter, with 2 more on track to open early next year.

While our supply chain has had to address a host of unique challenges, I also want to acknowledge the tireless work of our construction team, which enabled them to successfully bring a huge number of store and distribution projects to completion this year. These are highly complex projects across multiple geographies, which require precise coordination across a large number of regional construction providers, along with a diverse group of fixture and equipment vendors, all of whom have been facing the same bottlenecks we've been facing in our merchandise supply chain. Our construction team has handled all of these challenges with good humor and resilience, allowing us to continue reaching guests in new neighborhoods and support the growing supply chain needs of the entire chain.

In support of those growing needs, we recently announced that we're adding more than 30,000 permanent positions across our supply chain network to support the growth we expect to continue delivering in the fourth quarter and beyond. These team members will support new buildings in our regional DC network, adding replenishment capacity to support an increasingly productive store network. They'll also be staffing and supporting our new sortation centers, which deliver efficiency, speed and additional capacity in support of last-mile fulfillment.

And it's amazing to pause and look back at how much our network needs have grown in a short time. For the entire fiscal year in 2018, our business generated $74 billion in sales. Less than 3 years later, our business had already delivered $74 billion in sales through the third quarter, with the biggest quarter of the year still ahead of us. Our team and supply chain infrastructure have done an outstanding job in supporting that growth.

And given that we don't expect it to end anytime soon, we are committed to growing our physical footprint and our team so they can continue to deliver on behalf of all of our stakeholders in Q4 and beyond.

When I first started working here in 1996, Target delivered just under $18 billion in revenue, for what was then called Dayton Hudson Corporation. While many things have changed since then, both in retail and at this company, we successfully maintained what's made Target successful and unique for nearly 60 years. We've maintained our focus on offering affordable design in support of a unique merchandise assortment, providing a differentiated and outstanding shopping experience, investing in the best team in retail and giving back to the communities that sustain us.

This is another example of what we call the power of 'and'. The reason Target has stayed relevant for so many decades is our ability to stay true to our values and continually evolve in the way we serve our guests.

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

Michael J. Fiddelke

ROIC of 31.3% compared with 19.9% a year ago. This is incredibly robust performance and demonstrates why we are enthusiastically planning to continue investing in our business.

Now let me turn to our expectations for the fourth quarter and full year. 90 days ago, we said we were planning for high single-digit growth in our comparable sales over the back half of the year. While we still believe that's in the range of possible outcomes for the fourth quarter, we just exceeded that expectation in Q3. As such, we're planning for a Q4 comp in the high single-digit to low double-digit range, consistent with the range we've seen over the last 2 quarters.

In terms of profitability, we continue to expect that our business will deliver a full year operating margin rate of 8% or higher, up significantly from 7% in 2020. This rate favorability, combined with the full year sales growth we're positioned to deliver, would translate into another incredibly strong year of profit growth, following a record year in 2020.

So now as I get ready to turn the call back over to Brian, I want to pause and address a question that I'm certain you'll be asking, which is, how much of the current cost pressures will turn out to be temporary and how much will turn out to be structural? And I'll give you the honest answer, which is that it's almost certainly some of both. And no one knows the precise answer.

That said, there's no doubt that supply chain bottlenecks should ease over time. However, beyond the supply chain, we're also facing product cost increases from some vendors, driven by higher costs in their businesses. And while you heard from John that we're extremely well positioned given our team investments over the last few years, the labor market remains very tight across the country.

So how do we think about the future? From a financial standpoint, we focus first on serving our guests and translating that focus into further growth, an area where we see a lot of runway. As you've seen with the investments we've made and continue to make, we're earning deeper trust

To say we're feeling the impact of those benefits already this holiday season would be an understatement. In fact, I place them alongside our multi-category portfolio, our unmatched same-day services and the skill of our extraordinary team as keys to our holiday readiness.

So once again, I want to thank our team. There is no question that because of their dedication and connection to our guests, we stand ready for an exceptionally strong holiday season. Throughout the team, across every function, I've seen the energy and passion as they prepare for the busiest season of the year. And I'm confident that same energy and passion will ensure Target's consistent and sustainable growth over the longer term as well.

Now Christina, John, Michael and I would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Michael Lasser with UBS.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Michael, you began the question already by suggesting you're not sure how long the gross margin is going to last. Can you at least help us understand if the third quarter was the peak gross margin degradation that you expect to realize over the next few quarters? And what are you doing to mitigate this gross margin pressure in terms of passing along price increases to the consumer?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Thanks for the question, Michael. As you know, we don't guide margins specifically out into future quarters. But I will say and reiterate what I said in my remarks. I think you're seeing in the third quarter, the result of some very specific investments we made. And the biggest of those investments is an investment to make sure we've got a great inventory position heading into the fourth quarter. And pulling all the levers within the system to ensure we're there for the guest has been our priority. And some of those levers, think of expediting product to come at a cost, and you saw some of that in the third quarter.

But I feel really good about the payoff from an investment decision like that. We've got inventory of $2 billion north of last year, up almost 20% on a year-over-year basis. And that's fueling the continued top line growth that we see. So I feel really good about the set of investments that we're making and how they have us positioned for the back part of the year.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

My follow-up question is, even without providing any context on the gross margin for at least the fourth quarter, can you give us a sense for how much you're able to offset or continue to offset this gross margin pressure with further SG&A reductions? Should we expect your SG&A dollars in the fourth quarter to grow at a similar rate that they grew in the third quarter?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Yes. On the SG&A side, I think the theme you see in Q3 is just an example of how powerful productivity improvements that come with growth are for our business. We generate astounding leverage when the top line is running forcibly in the right direction, and it certainly was in the third quarter. That's one of the reasons. We want to make sure we're so well positioned to support continued growth because the P&L works great when we're generating that SG&A leverage, just like you saw in Q3.

Operator

The next question is from Chris Horvers with JPMorgan.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So 2 question. My first question is, you raised the outlook for the fourth quarter, can you talk about what you're seeing from the consumer so far this holiday season? Are you seeing any indication of that holiday sales could be pulled forward? And does the guidance reflect any risk on stock-outs as we progress toward Christmas and then, obviously, stimulus slap in January?

Brian C. Cornell

Operator

The next question is from Karen Short with Barclays.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

Sorry to try this a little bit differently. So when you look at your top line growth in 3Q relative to your EBIT growth, and then -- so we look at the gap on those 2 in 3Q, and then back into 4Q, it looks like you will have much stronger -- a much wider -- or sorry, a much narrower gap on top line relative to EBIT growth in 4Q. So is that a function of the fact that a lot of the supply chain costs and inventory costs were pulled into 3Q? And then I guess what I want to ask bigger picture is, looking at '22, how should we think about that algorithm generally, top line growth relative to EBIT growth?

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Well, thanks for the question, Karen. It's -- I guess I'd start by saying it's wrapped into the guidance we've given for the balance of the year. We would expect op income rate of 8% or higher. And that's inclusive of a lot of moving pieces and puts and takes throughout the P&L. But I'll tell you the place that starts is growth, and that's why high single-digit to low double-digit expectations for the fourth quarter are kind of where the short-term algorithm starts. And with that kind of growth, we feel confident in our ability to put together a P&L that works.

The time will be right in the future to unpack the future year algorithm. But I will say, over time, we expect to be a growth company. We expect to be a company that's growing the top line and gaining share over time. And that's where that algorithm will start.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then just a follow-up. You didn't mention markdowns or what your thoughts are on overall markdowns. I know originally, you'd hope that you would have enough excess inventory to be able to have a healthier markdown season. Just wondering where you stand on that.

Michael J. Fiddelke - *Target Corporation - Executive VP & CFO*

Yes. I describe us as still chasing. The strength in the top line means that we're still not seeing those clearance markdowns return in force, like you've heard me talk about quarter-over-quarter. And so that said, we feel really good about how inventory is positioned for the fourth quarter. And so that $2 billion higher than last year, up almost 20%, it means we'll be ready to serve our guests for the important holiday season.

Operator

The next question is from Kelly Bania with BMO Capital.

Kelly Ann Bania - *BMO Capital Markets Equity Research - Director & Equity Analyst*

Just wanted to ask really about the competitive environment. And clearly, you're maybe not passing on all the cost pressures that maybe you could. And my understanding is you're kind of investing here in that relationship with your guests. But do you see this as an investment to sustain these share gains? Or are you already seeing any signs of consumer price sensitivity? Or is it just an anticipation of that as we move forward and this is maybe more of a proactive absorption of those costs here?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Kelly, you've heard us say a number of times already today, we're investing in growth. We're investing to maintain and continue to build market share positions and build on the extraordinary results that we delivered last year, where we added $9 billion of market share and continue to see that momentum grow in 2021. So we're a company that's going to continue to invest in growth, do the right thing for our team, the right thing for the guest, and utilize all of our assets to continue to build on the momentum that we have today and build market share across all of our key categories.

Kelly Ann Bania - *BMO Capital Markets Equity Research - Director & Equity Analyst*

That's helpful. And maybe just a follow-up on the supply chain. Obviously, you've been ahead of that year -- ahead of it this year and pulling inventory ahead of schedule. What is your expectation on when that resolves? And are you still pulling inventory ahead of schedule for early next year?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Kelly, I'll start, and then I'll ask John to provide any additional comments. But we've certainly seen supply chain challenges going all the way to the start of the pandemic as demand across the U.S. continued to build. So we've done a terrific job. And I think our teams have shown great agility. They've adjusted to the marketplace to make sure that we've been able to meet the demand in our system. But we don't expect those supply chain challenges to go away as we go into the start of next year. And I think they'll dissipate over time.

So we're doing our fair share to make sure that we're alleviating some of the congestion in the ports and making sure that we're unpacking containers and off-peak hours. We've utilized other ports across the country to try to relieve some of the congestion in L.A. Long Beach. But as John can attest, we know that we're going to still face some supply chain challenges as we go into 2022. There's still uncertainty as we think about supply from Asia as different factories from time to time are closed. And we're just going to have to show great flexibility and agility to provide the products that our guests are looking for and our system requires as we plan for the next fiscal year.

Operator

The next question is from Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I wanted to ask a quick question on labor. It sounds from the prepared comments, that from a staffing level, you might be in a good place right now. Could you maybe comment on how you're feeling about your labor in the stores versus the DCs, and what you're seeing in the competitive environment when it comes to wages?

John J. Mulligan - *Target Corporation - Executive VP & COO*

Yes. Kate, I think we feel really good about where we're at. And this really goes back a little bit like the supply chain thing. This is something we've been on top of for a very long time. We've made investing in our team an absolute priority. You've seen us do that for years now, investments in wage, investments in training, investments in benefits and investments in their safety over the past couple of years.

And so that all starts and leads to retaining our current team. And from our perspective, that's the way we achieve our staffing goals, is retain the team we have. This year, particularly in our stores, we spent a lot of time, individual conversations with every team member about what's the hours they want and what can we do to cross-train you to get you the hours you need. And so thatspp flexn slUn we doatito get you9reed.kEffatspp flexn slUnply c

More recently, we've said we're investing in our DC team, our supply chain teams to grow the staffing, and we feel great about applicant flow. We feel great about the turnover of our team. It's below 2019 right now. So overall, we feel we're really well positioned for the fourth quarter, and more importantly, for beyond the fourth quarter, because labor is going to continue to be tight, and we'll continue to focus on retaining our existing team.

Operator

The next question is from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

I know you don't give guidance. Obviously, you didn't for third quarter gross margin. I'm sure you had some view on where it would shake out. So I'm kind of curious just how much of what we saw in the third quarter was unexpected to you and maybe tied to decisions that you made during the quarter, intra-quarter and how much was tied to higher-than-expected sales.

And I just want to make sure I'm clear. I don't know if you'd answered the question earlier, was there an aspect of some costs getting pulled forward into 3Q out of 4Q?

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

I'll start. I think one of the positive surprises for us in Q3 was just the continued strength in traffic. To see our traffic grow by almost 13% was something that we actually didn't anticipate. We certainly were planning for a very strong quarter and continued market share gains.

But to see the type of performance across our business, the strength of stores, comping up almost 10%, in a period when we were comping over a 9.9% growth rate in the prior year, to see our digital business grow by almost 30%, comping over 155% growth the year before, those numbers are actually stronger than we might have expected. To see the consistent growth across every one of our major merchandising categories, double-digit growth, just the way the guest was responding to our assortment, the value we were delivering, the great in-store experience, those were all really positive results in the quarter and actually exceeded our expectations when we were planning for Q3.

Operator, we have time for 1 more question today.

Operator

Our last question is from Robbie Ohmes with Bank of America.

Robert Frederick Ohmes - *BofA Securities, Research Division - MD*

Brian, I -- kind of a follow-up to what you were just talking about. I wanted to ask you about grocery. I know that Target historically has said, we're not a full grocery shop. But I'm looking at the numbers you guys have been putting up in grocery, Food & Beverage, Beauty and Essentials. And can you maybe just speak to longer-term opportunity given the momentum you have there? And could you do more there? And maybe also, does it tie into -- does it drive general merchandise? Is it key to driving these digital numbers on very strong digital numbers? Any help to think about that would be great.

Brian C. Cornell - *Target Corporation - Chairman of the Board & CEO*

Robbie, why don't I start and let Christina add to my comments. But I think you've highlighted one of the real success stories within our business over the last few years. And the progress we've made from a Food & Beverage standpoint, the changes we've made in assortment, the market share gains that we've seen quarter after quarter now for multiple years, and the great response we're seeing to our own brands, and the strength and response we're seeing to Good & Gather is a real highlight for us.

But as Christina can build in more detail, we're also seeing tremendous growth in our Beauty business, and ongoing strength in Household Essentials. And that's helping drive trips and leads to cross shopping across our multi-category portfolio. So the position we're in today in Food & Beverage is dramatically different from where we were 5 years ago. We're connecting with the guest. The quality, the assortment, the value we deliver is being really well received from the guest who shops our stores. And we're seeing accelerated growth with our Food & Beverage business from a digital standpoint.

A. Christina Hennington - *Target Corporation - Executive VP & Chief Growth Officer*

I was just going to add a little bit of commentary to Brian's point about how Food & Beverage fits into the broad portfolio. The multi-category portfolio and the strength across the entirety is part of Target's sweet spot. So Food & Beverage is certainly an incredible proof point that's grown and driven share acceleration and traffic, but we rely on all of our categories to play that role at different times of year. And it's that combination that makes it so compelling whether it's back-to-school whether it's Halloween, whether it's Memorial Day or whether it's just your everyday trip when you need to pick up milk and bread. So this is part of the strategy that's accelerati Corf the styouy