US Holiday 2016 Results Update: More Retailers Report Disappointing Results

1) Continuing the trend of disappointing holiday results that were reported by retailers earlier in January, a number of additional retailers have provided negative holiday updates recently. Many retailers have mentioned weak store traffic, heavy promotions across categories and sales volatility throughout the season as common challenges.
2) The e-commerce channel has outperformed across retailers. Target reported 30% growth in digital-channel sales and a 40% increase in December versus an overall 1.3% decline in comparable sales for the holiday period.
3) For brick-and-mortar retailers, a tougher holiday against a favorable backdrop suggests a difficult 2017. Lowe's announced a plan to lay off "less than 1%" of its workforce, while JCPenney expressed concerns over its oversized store fleet. More companies are likely to join Macy's and Sears in closing stores and restructuring their workforces in 2017.

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US Holiday 2016 Results Update

Continuing the trend of weak holiday results that were reported by retailers earlier in January, a number of additional retailers have provided negative holiday updates recently. Many retailers have mentioned weak store traffic, heavy promotions across categories and sales volatility throughout the season as common challenges. Out of the seven retailers that have reported holiday results since we published our last holiday comp update, Tuesday Morning was the only one to report positive results.

The additional weak holiday results from specialty retailers and big-box retailers—against a favorable macro backdrop and positive weather trends—suggest that retailers are facing a difficult 2017. For brick-and-mortar retailers, the results imply more store closures and layoffs. While the overall results do not paint a rosy picture for 2017, e-commerce seems to have become a growth driver for retailers across categories.

Store Traffic, Heavy Promotions and Sales Volatility Continue to Be the Common Challenges

The retailers that reported holiday results this week noted traffic, promotion and sales volatility challenges, the same difficulties cited by many of the retailers that reported holiday results earlier in January. Target reported a "disappointing traffic and sales trend" and lowered its comp guidance for the fourth quarter to (1.5)%–(1)%, down from (1)%–1% previously. Tiffany & Co. noted that its New York flagship store on Fifth Avenue recorded a 14% sales decline due to postelection traffic disruptions. The flagship store is located near President-elect Donald Trump's home in New York, where increased security since the election has disrupted both pedestrian and car traffic.

Soft store traffic forced retailers to run heavier promotions than they had planned to. GameStop's November comps were down 26.6% due to aggressive console promotions on Thanksgiving Day. Christopher & Banks responded to soft sales and traffic earlier in the holiday season with higher-than-planned promotions, which put pressure on its margins. The company lowered its comp sales guidance to (8)%–(7)% amid soft sales and a management transition. Toys "R" Us commented that it was forced to take a more promotional stance due to soft sales in its toys business.

E-Commerce Outperformed

Most retailers continued to see double-digit growth in e-commerce sales, despite their overall weak holiday performances. Target reported 30% growth in digital-channel sales and a 40% increase in December versus an overall comp decline of 1.3% for the holiday period. Target's e-commerce sales growth outperformed that of most retailers. GameStop expects its nonstore sales to account for 40% of its earnings in 2016, and expects to see continued growth from this business area. Christopher & Banks saw 15% e-commerce growth. And Toys "R" Us announced the relaunch of its web store, which it believes will drive future growth in its baby and toys businesses.

Target commented that the costs associated with the accelerated channel shift toward e-commerce have affected its fourth-quarter margins and EPS.

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Store Closings and Layoffs to Come with Major Restructuring Plans

Lowe's announced a plan to lay off "less than 1%" of its employees as part of an effort to change its store staffing model and adapt to a more customer-focused store experience. Target shared its plan to test out new store formats, which may coincide with the closure of some existing stores. These companies are likely to join Macy's, JCPenney and Sears in closing stores and restructuring their workforces in 2017.

Figure 1. Selected US Retailers: 2016 Holiday Comp Results

	Reported Holiday Comps/Comments	Overall Performance
Specialty Retailers		
Christopher & Banks	Lowered 4Q EPS and sales guidance	–
GameStop	(18.7)%	–
Toys "R" Us	(2.5)%	–
Tiffany & Co.	(4)% for North America business	–
Tuesday Morning	3.8%	+
Big-Box Stores		
Target	(1.3)%	–

Source: Company reports

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