

NORDSTROM

Highlights from Nordstrom's 2021 Investor Event

February 4, 2021

Since the founding of Nordstrom, our focus has always been on the customer —that's never been more important. We strive to make customers feel good and look their best. At the heart of our business transformation is the recognition that the unique combination of the Nordstrom and Nordstrom Rack brands, along with our combined physical and digital expertise, create a powerful opportunity to get closer to the customer than ever before. We're calling this new direction for the company "Closer to You," which is centered on unlocking the full power of the digital-first platform that we have built to significantly expand the aperture of who we serve, and where and how we serve them.

Today we hosted an event with the investment community to walk through this transformation, where we stand today and our path to capture market share and drive profitable growth. You can watch the [entire event here](#).

While there was a lot covered throughout the event and plenty to be excited about, below are a few highlights.

We're focused on three great opportunities for growth.

First, we will win in our most important markets by extending the rollout of our Market Strategy, integrating Rack assets, and further evolving our distribution capabilities. Second, we are broadening the reach of Nordstrom Rack by expanding our price range and better connecting physical and digital inventory. Third, we are increasing the digital velocity of our business as we grow the assortment, deliver personalization at scale, and increase the linkages between the digital and physical.

We're growing product and selection while increasing convenience and connection in our top 20 markets.

Our Market Strategy has evolved to become our overall Nordstrom strategy to win with customers, which is all about how we leverage local assets of people, product and place to serve customers what our customers want, where, when and how they want. To date, we have rolled out our strategy to our top 10 markets, representing approximately half of our total sales. We are providing customers greater selection, with on average 4 times more product available next day and a one-day reduction in shipping speed.

Sales results, engagement and overall customer spend have improved in these markets. We have increased our customer counts by 20% and grown sales at a rate of nearly 200 basis points higher than other markets. Importantly, we have accelerated rollout of this approach to include Nordstrom Rack, well ahead of plan.

In 2020, we doubled our market exposure by expanding into 10 markets. Looking to 2021, we plan to double this exposure again, reaching our top 20 markets. These markets make up approximately 75% of our current sales, across 76 Nordstrom stores and 167 Rack stores. Over time, as our capabilities evolve, we fully expect our new approach to capture the vast majority of our customers and sales.

Our ability to develop and leverage deeper insights and predictions is key to unlocking the growth potential of the broader Nordstrom platform.

Our digital-first platform is an interconnected set of cooperative capabilities that allows us to deliver four key things: First, timely and relevant, personalized customer experiences across our omnichannel touchpoints. Second, support for our merchandising processes, partnership models, and marketplace needs. Third, the ability to optimize inventory and supply chain logistics to fulfill any product, to any customer, at any location, at any time. And finally, empower our employees with effective tools to deliver excellent service.

This cuts across how we engage with new and existing customers, by allowing us to dramatically improve personalized product discovery and service. It also drives our efforts to improve selection, by giving us the tools to widen our product assortment while maintaining the ability to evaluate the merit of every potential product. It also allows us to improve service by giving our employees better tools and creating the ability to personalize at scale to get closer to the customer than ever before.

By building a strong interconnected, technology platform, powered by our Nordstrom Analytical Platform, we are improving our organizational decision making, agility, and speed and delivering on our promise to get "closer to you."

Shifting to a digital-first approach to merchandising enables a significant expansion of assortment and options for customers.

Our success will be defined by our ability to deliver on three key initiatives:

First, shifting even faster to a truly digital-first approach to selecting and managing assortments. Today in our total JWN business, our online selection is nearly 3 times what we offer through our physical store selection. In the future, we see potential for our online assortment to be 20 times what we offer in our stores.

Second, optimizing the flow of inventory to better meet customer demand through fast and flexible fulfillment. With the right amount of inventory in a market, we're then able to use our connected network to provide fast and flexible delivery for customers while increasing availability in stores.

For instance, for Holiday this year we allocated almost 60% of owned units to our stores based on our expectations for total market demand. This was almost 20 percentage points higher than if we had allocated product based on projected store demand alone.

And third, expanding our inventory partnership models to expand breadth and increase agility while limiting risk. Extending beyond our traditional

wholesale model allows us to increase selection, sharing risk and benefit with our partners. It also gives us additional agility and flexibility to adapt to emerging preferences and trends.

Going forward, we believe we can significantly scale these models to support our plans to expand selection from approximately 300,000 customer choices currently to over 1.5 million. This means further evolving the mix of our business from 85% traditional wholesale to approximately 50% over time.

We've combined our heritage of service with our digital business to unlock new avenues for growth and personalization for customers.

We've been serving customers digitally for over 20 years and were an early leader in connecting our customers' experiences across all of our physical and digital assets. We currently serve 14 million customers in our digital channels and are on track to generate \$5.5B in sales in our digital businesses in 2020. This year we reached an important milestone with more than ½ of our sales coming through digital channels, and we expect the majority of our sales to be digital as we move forward even as store revenues recover.

Our goal is to make digital personal with discovery supported by a broad product assortment, convenience powered by our market strategy, and connection via our people and experiences. Our customers want and expect us to offer them the fullest expression of the world's best brands but it is not enough to simply offer more choices. We need to be better at offering customers more of what they want at an individual level —we need to leverage a broader product assortment and translate it into a curated and personalized shopping experience for each customer.

In our digital business we have added capabilities to replicate the in-store discovery and service experience that customers expect. For example, we offer [dynamic Looks](#), which provide customers with full outfit recommendations based on their search and purchase history. Customers have responded positively to this feature —with a customer satisfaction score of 90 and attributed sales growing in the triple digits versus last year.

Nordstrom Rack's product offering and digital presence truly differentiates us in the market.

Our product offering is unlike any other given our ability to partner with brands in a way no one else can, across Nordstrom and Nordstrom Rack. We can get relevant, in-season product sooner than our competitors. We're also delivering exceptional value for us and our brand partners by maximizing value at each stage of the item's lifecycle as it moves from Nordstrom to Nordstrom Rack.

Also, our [digital presence](#) is unmatched. We are the lone player with scale in digital and mobile. We invested early in this space with the acquisition of HauteLook and have translated that \$200M investment into a \$1.4B-plus digital business. As we move forward, we will sunset the HauteLook brand from a customer perspective while continuing to offer flash events that our customers love under the Rack brand.

We're broadening the reach of Nordstrom Rack by expanding price-oriented and high-growth offerings.

We are dramatically expanding our price-driven offering in select locations. Using a data-driven approach based on demographic and store-level metrics, we repositioned the Rack store fleet into three groups:

- Price doors, which distort to a lower average selling price assortment and price-driven merchandising approach;
- Brand doors, which are largely unchanged from the traditional Rack offering; and
- Hybrid doors, which will have broad appeal with a mix of brand and price-focused products.

We started this work in Fall 2020, and we are encouraged by early signals from our repositioned doors. Longer-term, we see the potential to expand our store footprint with additional Price doors in new markets.

We also see meaningful opportunity to expand our assortment in high-growth categories that customers are voting for. These include Beauty, Home, Kids and Active. Today, these categories make up 20% of Nordstrom Rack sales. Over time we expect to more than double our sales in these categories.

Combining our Nordstrom and Nordstrom Rack platforms creates a seamless customer experience.

Migrating Nordstromrack.com to the JWN ecommerce platform is also critical to deliver on our promise of convenience and connection, as it allows us to unlock capabilities to deliver a more relevant and tailored digital experience. By creating an individualized digital experience, we plan to drive more transactions, higher conversion, and ultimately higher sales. With the continued shift of customers online, we expect to grow digital penetration to 45% over time.

In October, we also extended product availability through a shared view of inventory across the Rack business. By enabling this capability, we have grown selection by 20% without purchasing an additional piece of inventory. It has allowed us to get product to our customers approximately one day faster on average. When we rolled shared inventory out at Nordstrom, we saw an almost 10% lift in spend, lowered inventory by roughly 5% and improved inventory turns by more than 10%.

It allows us to further differentiate from Off-Price pure players who cannot build these capabilities given their limited digital presence. We have seen strong engagement with these services as we have rolled them out:

- For store fulfill, just over 20% of Nordstromrack.com orders have come through store fulfill in the initial months and we see more runway ahead; as a reference, for Nordstrom.com, that number is roughly 30%.
- Ship-to-Store drove a 10% lift in new customers and 20% of customers using this service made an incremental in-store purchase when picking up their order.

We're more committed than ever to the highest Governance and Diversity, Inclusion and Belonging standards.

Having a positive impact is a principle that has defined Nordstrom since its founding. And we are striving to meet or exceed our stakeholders'

expectations and deliver on our core intention: to leave it better than we found it. As we look toward the next five years, we have expanded our [Corporate Social Responsibility](#) mandate to focus on three priorities: Environmental Sustainability, Human Rights, and Corporate Philanthropy.

As an organization, we're also committed to increasing demographic diversity in all corporate and leadership positions to better reflect the North American population. This includes increasing representation of Black and Latinx populations by at least 50% in people-manager roles at the mid- and senior-levels by the end of 2025. To be successful in these initiatives, we must build diversity and inclusion into our leadership expectations. And [we'll measure our leaders](#) on their performance in this area across the organization.

Our business transformation positions us to capture market share and drive growth.

While the crisis is not over, we are increasingly optimistic about a post-COVID recovery as the vaccine rollout continues. We have already seen our revenues improve sequentially each quarter since the reopening of our stores in the second quarter.

We see three primary revenue drivers for the business going forward:

- Recovery of revenue lost due to COVID-19. While the timing and pace of the ultimate recovery remain uncertain, we expect \$3-4 billion in incremental revenue from 2020 levels, with roughly two-thirds of coming in 2021, assuming our stores remain open.
- Executing our three growth priorities, which support an additional \$2-3 billion of annual revenue in the medium term.
- Building off of this base, sustainable low-single-digit percentage growth as we leverage and scale our platform.

Over the long-term, we expect improved earnings before interest and taxes (EBIT) margin for the business as a whole, with the opportunity for sustained EBIT margins of 6% or more. In fact, as a result of rebasing our cost structure in 2020, we can generate 2019 EBIT margin on a billion less in revenue. If we achieve revenue levels comparable to 2019, our EBIT margin is expected to exceed 6%.

We also expect a meaningful reduction in the capital intensity of our business as we extend our platform. This includes lowering our working capital requirements as we expand partnership models for the brands we sell. Our capital expenditure requirements will also be lowered when compared to recent years when we were making our generational investments. Ultimately, we expect our new model to support ROIC in the low teens in the years ahead.