

NORDSTROM

New Retail Ecosystem CEO Summit

May 28, 2021

CEO Erik Nordstrom and CFO Anne Bramman joined Oliver Chen with Cowen for the 2nd annual New Retail Ecosystem CEO Summit to discuss our Q1 earnings, plans for growth and strategy to serve customers as the world begins to reopen. Below are highlights from their conversation.

We're encouraged by sales trends both in our stores and our digital business, supported by an improving consumer environment and strong execution.

"I think there are two general data points that are encouraging. One is the geographic regions that have opened up sooner, for us that's been in the southern part of the United States, are quite a bit ahead of our other stores —ahead by seven to 10 percentage points. We expect the northern stores will follow as things open up.

"The other data point is the categories that are improving. A number of our big categories experienced headwinds during the pandemic. Our mix has shifted -- more casual, active and home. We've had some good success there. But there're still some big categories that are we know we're top of mind for customers to come buy. It's things like wedding attire, dresses and even just to go to a restaurant and those increasing trends are really encouraging for us." —Erik Nordstrom

Market Strategy is now in place in all of our top 20 markets, bringing an unmatched level of convenience and connection to customers who make up about 75% of our sales.

"Our market strategy is truly grounded in our two brands, Nordstrom and Nordstrom Rack, and our digital and physical capabilities. It's all about leveraging those digital and physical assets to engage with customers more. What we know now is we have this opportunity across our ecosystem to engage with customers in different ways. Whether there's much of a sale made at that moment or not, we know most of our customer journeys start online and that discovery process is really important. Our business where we're at our best is really driven by newness.

"We've invested quite a bit over the last couple of years to connect our physical and digital experiences. Last year we did over half our business online and we're at 46% the first quarter. That's a big advantage for us because we can get a bigger selection to customers with faster delivery on their terms in our top markets. And then the other part is our merchandise offering, to provide everything from off-price options to pure designer choices. One of my favorite stats is we are the number one place for a customer to make their first designer purchase because it means we're making that first designer purchase more comfortable for customers and growing with them along their shopping journey." —Erik Nordstrom

We believe that our Anniversary Sale will be well-timed to benefit from customers' increasing confidence and return to pre-pandemic activities.

"Because of our push towards digital last year, we added a product preview and wish list feature where customers can go in and build a list of the Anniversary product they wanted before the sales started. The engagement with that was way beyond what we expected. So we have that capability again as well as digital selling tools for our salespeople to engage with customers and help with discovery of product, but the big difference this year is that stores are back.

"We also think the timing of the sale really fits well with things opening up and people getting back out there again. We've already heard a number of customers are just happy to go back to their store to visit with their friends or their favorite salespeople." —Erik Nordstrom

We are responding with speed to manage external cost pressures and remain on track to deliver on our guidance.

"We really took a step back and thought about what kind of company we want to be coming out of pandemic. I think you're seeing a lot of the initiatives coming out of that thinking like the digital-first platform. From an SG&A standpoint, we took over \$400M of overhead costs out of our cost base last year, with 75% of that sticking permanently going forward. That gave us a really nice base to work on as we started 2021. While we had different pressures last year than this year in terms of cost, we've all learned that we have to be flexible and agile in working through this.

"We rebased our fixed cost structure, so I think one of the things that are really illustrative of this is when you look at what it would take to deliver that 2019 margin, it's on a billion dollars less in sales. Vice versa if we deliver the same amount of sales as in 2019, you would see us hitting or exceeding that target as well. So that flow-through component is really beneficial for us as we move forward. It doesn't mean that we've stopped investing in the business because we are continuing to make normalized investments and really focused on technology and supply chain. What we do know is that depending on what the top line is, we can get that flow through to the bottom line." —Anne Bramman

We've aligned inventories with current sales trends and are energized by the momentum we're seeing in the business and potential from alternative partnership models.

"We are really pleased with how we're starting the second quarter. We entered Q1 with too much inventory, so the team worked incredibly hard to work through that and we feel really good about the inventory we've got. We've all dealt with the supply chain disruption, so we're being very thoughtful and proactive with our partners on this while also making sure that we can meet the demand that's out there as things continue to open up." —Anne Bramman

"We've really connected our full-price business to create a lot of inventory efficiency and we're in early innings in our off-price business and doing that. It's a big part of our market strategy but it's also about getting the inventory closer to the customer. Not only can we get a bigger selection to the customer faster, which is great for them, but there is a clear relation to margin within that. It also helps with returns —we get them faster when we line up more physical locations for customers to return. Our Rack stores can now take returns of any Nordstrom.com purchase at any of our 250 locations.

"The other piece around the margin that we see is the wholesale part of our inventory going from 85% to 50% over the next couple of years. What increases is our own product that we make but also alternative partnerships with our vendors. It could be dropship, which is what it's predominantly been to date, but we see a lot of opportunities to step back and look at the global supply chain and the risk that can go with inventory and the pipeline and how we can address it together. We see a lot of opportunities there to do some different partnerships than we've had in the past that will take the risk out of inventory, get us the selection that we know our customers want and improve our margins." —Erik Nordstrom

We continue to broaden the reach of Nordstrom Rack across our stores and digital platform.

"We see a lot of opportunities to grow Nordstrom Rack. We have about 250 stores —there is still a lot of growth in stores there. Our model supports it, the demographics support store expansion. We also think there are comp-store opportunities on expanding our price range. We have these hybrid stores which are adding some lower price merchandise to what we already have. We see other stores as price stores that are full of lower price merchandise. We're still really early in this approach -- we have not had the full merchandise offering that we want due to supply chain challenges.

"A big part of the appeal for Nordstrom Rack is the Nordstrom part of it. There's a legitimacy of the brands in the treasure hunt. 95% of our full-price brands are in our Rack business. While we add some lower price categories, we still have big brands that are full-price businesses, that customers come to us to buy at Rack. What we've learned is that adding lower price merchandise doesn't cannibalize those higher price brands.

"The other piece is the digital growth. Nordstromrack.com is an unusually large online off-price business because it's hard to make money online in off-price. The lower price points put a lot of pressure on the EBIT flowthrough. We have parity with our stores and online business with Nordstrom and see a path for Nordstrom Rack through better connectivity across our brands and by leveraging our stores more for returns, order fulfill and pickup." —Erik Nordstrom

Our purpose is to make customers feel good and look their best, and part of that means being proactive in addressing how we show up as a company.

"For us, we don't have environmental, social and corporate governance (ESG) efforts in a silo. Our corporate social responsibility efforts are integrated throughout our business. That's always been the case, but recently, it's been more evident to our customers because we've been more vocal on our values and doing a better job of working with emerging brands that have a story to tell. I think we're at our best when we're a place of discovery and a big part of that is telling brand stories. We think brands in fashion are important and allow us to tell a brand story that creates interest in customers buying something new -- whether that's a story about diversity or sustainability, our teams are getting good and communicating that with customers." —Erik Nordstrom