

NORDSTROM

Telsey Fireside Chat with Erik and Anne

July 22, 2021

Our CEO Erik Nordstrom and CFO Anne Bramman recently joined a conversation with Dana Telsey from Telsey Advisory Group to discuss our Q1 business progress, updates on Anniversary and more. Below are some highlights from that meeting.

We continued to see very consistent momentum on the top line.

"Our Q1 sales quarter over quarter continued to improve largely due to two data points. First, we're seeing the opening of the country helping our stores come back faster and bigger than anticipated. Second, we've seen a pretty significant shift as it's clear that customers are getting back out there and shopping pre-COVID categories. But they're buying not only because they haven't bought anything in a while, but they are shopping for occasions like weddings or something as simple as getting out in a restaurant again. There's clear enthusiasm for people to shop for those occasions and to do so in our stores." —Erik Nordstrom

Our Anniversary Sale has always been different -- it's brand new products at sale prices for a limited time.

"Pretty much every sale in retail is a clearance sale, which is the leftover, stuck and marked-down merchandise that needs to clear out. Our Anniversary Sale has always been different than that —it's brand new merchandise. We go to our best brands, ask for the best product, bring it in and reduce the price off the bat. We've built up a good reputation because of this and it fits a particular shopper since there is such demand for newness.

"We learned a lot last year during Anniversary. We had to really accelerate our digital capabilities which is the path we've been on for a couple of years of better connecting the digital and the physical. For example, we introduced a wishlist feature last year and the response to that was really fantastic. We've continued to build on these digital connections in case we sell out of something because Anniversary is all about scarcity, but we want customers to come back once things are back in stock." —Erik Nordstrom

ASOS is really good at what they do as they build great products that resonate with 20-something customers.

"Topshop is a huge brand for us —it's in the top 10 for us. Particularly, it has a lot of relevance and recognition with the young customer. It's important for us to maintain that now that ASOS owns that brand. The other part is they're really good at e-commerce —their digital capabilities are terrific. The combination of what we can each offer is a very important example of what we think there's going to be more of in our model going forward, which is partnerships with brands that can take different forms. We will continue to step back and ask how can we bring customers newness and unique brands that are really sought after but can't be found everywhere?

"There are a lot of examples of us having been the retail partner of choice to these really emerging brands —this is another step in that. We're continuing to think about what this partnership could be to benefit both of us. We think there's a lot of potential there with them, and we'll learn a lot that we can apply to other opportunities moving forward." —Erik Nordstrom

Our goal is to get closer to the customer in every aspect of our business.

"We think the supply chain issues are temporary. We think it's a moment in time and a kind of equilibrium will reappear. The optimum supply chain for us is in line with the overall goal of our business, which is getting closer to the customer. How do we get the biggest selection to customers as possible and on their terms? We added our Rack stores as pickup locations for Nordstrom.com purchases, so having that flexibility to be close to customers for us means optimizing the inventory that we have in our stores and in our local supply chain facilities. It gives us the flexibility of moving merchandise around. We also have store fulfillment, which is very efficient for us because it leads to greater sell-through at regular prices. We think this not only results in more selection and faster delivery for customers, but it also results in inventory efficiency for us and faster turns." —Erik Nordstrom

We must win with discovery both in stores and online.

"We've had a steady market share growth up until the pandemic because we weren't a central retailer in all of the COVID-friendly categories. However, I think there's a hesitancy that customers' tastes can change, so to get too focused on a category and market share that may shrink back is a risk. When you look across the competitive landscape, there are some subjects that we need to be at par with but there are some subjects where we need to win —service is one area.

"A part of that is to win with discovery. I think in our store-based model, we have a good reputation with customers who trust our salespeople. It's not like going to a grocery store with a shopping list and knowing exactly what they want, but they want something new and they get exposed to something that they end up loving. We need to be the leader of that digitally as well. And increasingly, discovery is done online. That's going to drive market share gain for us." —Erik Nordstrom

We want to be a place of engagement, discovery, education and entertainment —not just a place of merchandise.

"The traditional kind of wholesale retail model will be greatly diminished in the future. It will be about not only bringing merchandise for the customer and having access to lots of choices but also making that as relevant for customers as possible. Going forward there will be a curation of products that will happen through data and will be offered up in the discovery journey.

"How do we serve up what is most relevant to the customer from the much broader pool of inventory that we have access to? Some of that we may

own, some of it vendors may own and some of it may be something in-between. It could include things like rental or re-commerce. Overall, we want to be a place of engagement, discovery, education and entertainment —not just a place of merchandise." —Erik Nordstrom

Coming out of the pandemic, we can deliver higher earnings before interest and taxes (EBIT) margins on about a billion dollars less of sales.

"What we're really focusing on is continuing to drive market share on the top line, and it's going to be through different models like alternative inventory ownership and engagement models. As an industry and as a company, it's about return on invested capital over time —that's a great indicator. In the pandemic, we took the opportunity to really think about what the business was going to be like coming out of it, where the customer trends are accelerating and how we really structured the business in order to deliver on that promise going forward.

"We took direct actions to become a truly digital-first company, which meant building out our analytical platform and focusing on three different areas: customer, product and inventory. We also took a hard look at our overhead and fixed costs and restructured the company in order to serve the customer more on that digital basis. Coming out of the pandemic, once things normalize, we can deliver higher EBIT margins on about a billion dollars less of sales compared to 2019 simply because of the fixed cost piece to it —we're moving the structure to more variable costs. If you look at roughly the same level of sales from 2019, it actually gets you to closer to a 6% or more EBIT margin. That drives a mid-teens return on invested capital (ROIC) for us and really is in that threshold of where we want to be from a return metric." —Anne Bramman

Rack has a large opportunity for growth.

"We see Rack as a big opportunity for us in three ways. One is expanding the price point by layering on some lower price products. The brands we have at Rack are for the most part the same brands that we have in our Nordstrom stores, so we want to keep that but layer on some lower price merchandise sets. The second is the opportunity to add physical store growth. The third is our digital business in which our size and scale are unique in the off-price space —our focus right now is improving the profitability of that channel." —Erik Nordstrom