NORDSTROM

# Goldman Sachs Global Retailing Conference

September 20, 2021

CEO Erik Nordstrom and CFO Anne Bramman participated in the Goldman Sachs Global Retailing Conference to discuss everything from our Q2 performance to progress on our Closer to You strategy. Below are some highlights from their remarks.

**Highlights from Erik:**

Though we're in the early innings and there's a lot of work to be done, we've seen proof points that our strategy is working.

As we look ahead, we feel great about the strategy we've set forth at our investor day back in February and are focused on accelerating our implementation. As a reminder, our "Closer to You" strategy is centered around three priorities: Winning in our most important markets, broadening the reach of Nordstrom Rack, and increasing the velocity of our digital business. And though we're in the early innings and there's a lot of work to be done, we've seen proof points that our strategy is working.

Starting with our market strategy, customers have responded very well, especially as we connect our digital and physical assets across our two brands of Nordstrom and Nordstrom Rack at the market level. For example, during our Anniversary Sale, nearly 40% of our Nordstrom next-day online orders were picked up in Rack stores. We are particularly pleased with our digital business. The velocity of our digital business continues with digital sales up 29% compared to pre-pandemic levels, and that occurred as stores recovered. We have also made significant progress in transforming our merchandising approach – the successful expansion of choice count for our Anniversary Sale was a big driver of the engagement we had for that event.

We see opportunity to accelerate our progress and are holding ourselves accountable to deliver.

Though we like what we're seeing from the customer in terms of their engagement both in-store and online, we're not satisfied with where we are, not at all. We see opportunity to accelerate our progress and are holding ourselves accountable to deliver.

Our Rack performance has been challenged by inventory flow, particularly within branded product in women's apparel and shoes. We are working with urgency to get after that. Specifically, we're leveraging our strong brand partnerships. What's unique about our partnerships in the off-price space is the partnership we have in the full-price space. We tend to have the same vendors, so by working with these brands across full-price and off-price, we have an opportunity to improve inventory access and flow. We also broadened the reach of Nordstrom Rack by expanding our price range and are implementing plans to drive awareness and traffic.

While we have a financially healthy customer in many ways, we still haven't seen the full benefits of customers returning to work, tourism, and social functions – especially in urban locations where we have our best stores. As customer mobility increases, we've seen the largest sequential improvement in shoes, apparel, and accessories – but those categories still aren't back to 2019 demand levels. We've seen continued strength in pandemic categories. In Q2 for example, home category sales grew more than 70% vs 2019, but home only [accounts] for low single digits percentage of our business. We believe these product mix shifts are transitory in nature and we'll see growth accelerate in our core categories as customers return to the office, travel and just get out there more often.

While we're certainly focused on the near term, we're also accelerating our strategic transformation to win considerable market share over the long term.

We have a strong foundation, and it creates a unique competitive advantage. We're working diligently to build on these advantages to serve customers on their terms. We have a tremendous opportunity to capitalize on the disruption in the retail sector, capture market share and drive profitable growth.

All said, we are on track to achieve the top-and bottom-line goals we set forth at our investor event and continue to build capabilities to profitably grow market share beyond that.

We're very excited about the path forward.

**Highlights from Anne**

The guidance we gave for Q2 and the second half really is delivering and meeting those commitments.

Heading into holiday, I think all of us will see some helpful margin improvements in the holiday season because there is a lot of demand. Even our Anniversary Sale in Q2 was a huge example of getting better sell-through, lower markdowns and ending in a good inventory situation.

We generally reinvest 3-4% of topline sales back into the business. We're still investing in stores to make them fresh and relevant for customers, but the majority of our investment [is] in technology and supply chain capabilities. To be a digital-first company is really about opening up the capabilities, the network optimization to serve our customers as they continue to drive that digital business as well as leveraging the physical assets we have in different markets.

As we think about the second half, clearly, we're all facing headwinds and we're really looking at offsets to those. We're pulling a number of levers like how to get more scale in certain investments like in supply chain. We're also looking at productivity opportunities like local and regional deliveries for the last mile and really looking at inventory in markets. It's closer to the customer, makes for a better customer experience and also optimizes the cost to deliver to customers.

The guidance we gave for the second half really is delivering and meeting those commitments – those medium-term commitments we laid out from both the top-and bottom-line perspective and unlocking shareholder value as well.

We are actually a little bit ahead of where we thought we'd be at this point in time six months ago.

We think that the investments we've made [are] really to drive scale in our business. It's really about leveraging the data we have from a customer, product and inventory perspective as a digital player is really expanding the choice count but using it in different alternative ownership inventory model. It's about partnering with our brand partners to ensure that we have an expanded catalog for the customer, but doing it in a way that we're sharing the economics and sharing the risk.

The other piece is continuing to drive top-line market share gains. For us, it is very much a focus of getting market share gains as well as driving that profitability flow-through. And as we normalize in our mid-term guide, ...we laid out [that] at 2019 EBIT levels, we need about $1 billion less of revenue on an ongoing run-rate basis [to deliver] a 6% plus capability from our medium-term and a low-teens ROIC. We are on that path. We are actually a little bit ahead of where we thought we'd be at this point in time six months ago, but it has certainly been implied in our guidance that we're on track to delivering the mid-teens target. It doesn't mean that we're stopping there. It means that that is the minimum threshold mid-term, and we'll continue to get more scale-out of the investments that we're making as well.

We've made an enormous amount of progress on our balance sheet. In fact, we're in much better shape than we were six months ago. We paid down debt, we're generating $1 billion-plus operating cash flow, and we are continuing to get our leverage ratios back in line. This year we're on a 3x EBIT or leverage ratio and on path to hit 2.5x or better next year. That is the way that we think about the business. Any excess cash after that gets returned to shareholders, and we believe we'll be in a position to start doing that by the end of this year.