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JWN - Q3 2017 Nordstrom Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2017 / 9:45PM GMT

OVERVIEW:

Co. reported 3Q17 diluted EPS of $0.67. Expects 2017 EPS to be $2.85-2.95.

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CORPORATE PARTICIPANTS

Anne L. Bramman *Nordstrom, Inc. - CFO*

Blake W. Nordstrom *Nordstrom, Inc. - Co-President & Director*

Erik B. Nordstrom *Nordstrom, Inc. - Co-President & Director*

James F. Nordstrom *Nordstrom, Inc. - Executive VP & President of Stores*

Peter E. Nordstrom *Nordstrom, Inc. - Co-President & Director*

Trina Schurman

CONFERENCE CALL PARTICIPANTS

Adrienne Eugenia Yih-Tennant *Wolfe Research, LLC - MD and Senior Analyst Retailing, Department Stores & Specialty Softlines*

Brian Jay Tunick *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Charles P. Grom *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

Dana Lauren Telsey *Telsey Advisory Group LLC - CEO & Chief Research Officer*

Edward James Yruma *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

Erinn Elisabeth Murphy *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Kimberly Conroy Greenberger *Morgan Stanley, Research Division - MD*

Lindsay Drucker Mann *Goldman Sachs Group Inc., Research Division - MD*

Maksim Rakhlenko *Cowen and Company, LLC, Research Division - Associate*

Mark R. Altschwager *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Matthew Robert Boss *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Paul Lawrence Lejuez *Citigroup Inc, Research Division - MD and Senior Analyst*

Paul Trussell *Deutsche Bank AG, Research Division - Research Analyst*

Robert Scott Drbul *Guggenheim Securities, LLC, Research Division - Senior MD*

Simeon Avram Siegel *Nomura Securities Co. Ltd., Research Division - Senior Analyst of U.S. Specialty Retail Equity*

PRESENTATION

Operator

Greetings, and welcome to the Nordstrom Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I'll turn the call over to Trina Schurman, Director of Investor Relations for Nordstrom. You may begin.

Trina Schurman

Good afternoon, and thank you for joining us. Today's earnings call will last 45 minutes and will include 30 minutes for your questions.

Before we begin, I want to mention that we'll be referring to slides, which can be viewed by going to nordstrom.com in the Investor Relations section. Our discussion may include forward-looking statements, so please refer to the slide showing our safe harbor language.

As a reminder, on October 16, the company announced that members of the Nordstrom family has suspended active exploration for the balance of the year at the possibility of proposing a transaction to take the company private. The company does not plan to comment further on the process including on today's call.

Participating in today's call are Blake Nordstrom, Co-President; and Anne Bramman, Chief Financial Officer, who will discuss the company's third quarter performance and the outlook for fiscal year 2017. Joining during the Q&A session will be Pete and Erik Nordstrom, Co-Presidents; and Jamie Nordstrom, Vice President -- President of Stores.

With that, I'll turn the call over to Blake.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Good afternoon, and welcome to our call. In addition to reviewing the third quarter results, I'll share some key initiatives that we're focusing on for the remainder of the year.

For the third quarter, we reported earnings per diluted share of $0.67. We estimate these earnings were reduced by roughly $0.04 from hurricanes Maria, Irma and Harvey, which affected our stores in Puerto Rico, Southeast Florida and Houston. The damage in Puerto Rico was particularly extensive, requiring us to close the store as we continue our repair efforts. We're grateful to our teams in each of these communities who have extended themselves to help our employees and customers.

We reported total sales growth of 2% and a comp decrease of 0.9%. Lost sales from the hurricanes accounted for approximately $20 million or 60 basis points. When adjusting for this impact, our overall sales performance was generally in line with our expectations. This reflected consistent trends at our full-price business, while on off-price, we experienced some deterioration relative to recent trends.

In our Nordstrom brand, total sales decreased 1.2% and comps decreased 1.9%. Sales in our full-line stores remained consistent with current trends. As we expected, Nordstrom.com sales reflected a higher volume of returns associated with Anniversary Sales last quarter. When we combine July and August to adjust for this timing impact, Nordstrom.com grew at a mid-teens rate.

In our Nordstrom Rack brand, total sales increased 5.5% and comps increased 0.8%, which reflected a step down from recent trends. In hindsight, our sales plan at the beginning of the year was too aggressive. As a result, we found ourselves over-inventoried without (company corrected after the call) the fluidity necessary to chase the business. This impacted our ability to provide newness, which led to softer results in the third quarter. We have made significant adjustments to our receipt plans to bring our inventories in line and believe we're well positioned for the fourth quarter in this regard. We recognize the opportunity to improve our top line results and are committed to providing good inventory flow, fashion-right merchandise and the best value possible.

Our Nordstrom Rack business remains a highly productive model and is approaching $5 billion in sales for the year. Finding new ways to engage with customers on their terms is as important as ever. We're continually testing and learning from new concepts to deliver experiences that improve speed, convenience and personalization for Nordstrom customers. This is core to our strategy of providing a differentiated selection of the best products, coupled with a high level of service and experience.

Our most recent example is Nordstrom Local, a test retail concept that's focused on services. Centrally located in West Hollywood, Nordstrom Local gives customers convenient access to personal stylists, alterations, online orders and more. In the first 4 weeks since opening, we got thousands of customer interactions and are applying the learnings to innovate further. Ultimately, our goal is to drive increased customer engagement and market share.

Another way we're engaging with customers on their terms is our Reserve Online and Try In Store service, which we recently expanded to more than 50 stores across the country. Our customers appreciate its speed and convenience. It frees up their time. And if they choose to do additional shopping in our store, this results in a material lift in their spend.

We're also connecting the digital and in-store experience with our style boards. This digital-selling tool leverages the expertise of our salespeople and enables customers to receive personalized product recommendations on their mobile phones.

Providing newness is an important aspect of our approach with the customer, and we're encouraged by our recent collaborations with emerging brands. Our Pop-In shops give customers access to highly sought-after brands like Warby Parker and Goop. Our recent partnership with Everlane has been our most successful Pop-In concept to date. Our partnerships with fashion influencers are another way we're creating inspiration and discovery for customers. We collaborated with the popular fashion blog, Something Navy, to launch an exclusive capsule collection with our in-house Treasure & Bond brand. It was our largest brand launch ever, generating $2 million in demand for the first day.

We made additional progress in growing limited distribution products, and our private label brand continue to outperform the company average.

We view our stores as a competitive asset and have invested in the markets in which we serve customers. We strengthened our presence in Southern California with the relocation of 2 full-line stores, the Century City and University Towne Center. Both openings well exceeded our plans.

Also this fall, we had 11 new Rack store openings and 1 relocation in markets that include Los Angeles, Manhattan and Seattle.

In Canada, we opened the sixth and final of our announced full-line stores with our new store at Sherway Gardens in Toronto. We look forward to introducing Nordstrom Rack to our Canadian customers starting next spring in Calgary and Toronto.

As we head into the fourth quarter, we're focused on making Nordstrom a convenient place for customers to do their holiday shopping. We have a number of initiatives in place. We've invested in key categories and brands that resonate most with our customers. This includes expanding our online selection and fulfillment capacity to support the peak volumes that we expect during the holidays. To make shopping faster and easier, we offer in our full-line stores, buy online, pickup in-store with an option for curbside services.

Also, in several markets, we have available Reserve Online and Try In Store and same-day delivery services. Next month, we'll offer 24-hour curbside pickup in major markets, including Seattle, Chicago, Dallas and San Diego.

During this holiday period, we believe the strength of our digital capabilities, along with our local market assets, our people, product and place, represent a significant competitive advantage in serving our customers.

I'll now turn it over to Anne, who will provide additional insights into our third quarter performance and outlook for the year.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thanks, Blake, and good afternoon, everyone. Our third quarter earnings, when excluding the hurricane impact, were generally in line with our expectations.

Looking at the drivers of our results. Our retail gross profit rate was down 12 basis points, due to planned occupancy costs associated with new Rack stores in the U.S. and upcoming stores in Canada. Merchandise margins continue to be relatively stable, reflecting our ongoing progress in supporting a healthy, regular-price selling business. For 5 straight quarters, sales growth outpaced inventory growth, and we exited the third quarter in a relatively clean inventory position. For the balance of the year, our inventory plans are aligned with current sales trends.

Moving to SG&A. Our rate was up approximately 160 basis points, primarily due to technology and supply chain expenses. As we've commented over the past year, we've made significant progress in improving our productivity, particularly around our technology, supply chain and marketing capabilities. This required fundamental changes in the way we operate to improve the customer experience and support long-term profitable growth.

Last year, we made a significant step-change to the expense growth in these areas by cutting the recent historical run-rate of 20% by half. This year, we are on track to hold this expense rate constant to last year's growth rate.

In supply chain, we continue to see the mix impact associated with the accelerated growth of online, which is approaching 25% of our sales. We've made operational improvements to reduce split shipments and cancelled orders. This has resulted in a better customer experience while reducing our average cost per unit. Going forward, we see further opportunities to gain efficiencies.

Technology is another critical enabler in delivering customer experiences. As we discussed last quarter, we continue to modernize our platforms, and investments are shifting to cloud-based solutions. This is creating more of immediate expense impact rather than capitalization. To get a more holistic perspective on our technology investments, we continue to be on track with our plan for total cash spend of roughly $540 million or 3.5% of sales.

Turning to credit. EBIT increased $16 million over last year, driven by credit card revenue growth of 25%. We also recently sold our bank charter, eliminating associated regulatory requirements and minimal costs.

We've been encouraged by the continued momentum in our Nordstrom Rewards program. With nearly 10 million active loyalty customers, our loyalty program represents more than half of our sales year-to-date. This growth has been fueled by the expansion of our program in spring 2016, which enables all of our customers to earn rewards regardless of how they choose to pay.

Turning to our financial position. We continue to have a healthy balance sheet and have generated around $600 million in operating cash flow year-to-date. Our debt leverage remained consistent with our expectations at 2.5x on adjusted debt-to-EBITDAR basis. We reported double-digit return on invested capital of 10.7%. These metrics reflect our overall favorable positioning in the market.

As Blake mentioned, our combined physical and digital presence is a key differentiator in serving customers and gaining market share. Our omnichannel business model also provides for favorable economics related to driving customer spend, reducing the cost of serving customers and elevating the Nordstrom and Nordstrom Rack brands. We believe we have meaningful opportunities ahead to further leverage our investments and improve our long-term profitability.

Now I'd like to provide some additional color on our updated 2017 outlook. We narrowed our EPS range of $2.85 to $2.95 compared with our prior outlook of $2.85 to $3. This incorporates our third quarter results and the estimated full year hurricane impact of roughly $0.06. In addition, we adjusted our full year tax rate to be in line with the year-to-date rate.

From a top line perspective, we've held our full year outlook for total sales growth of approximately 4% with roughly flat comps. This incorporates our underlying trends while taking into consideration expectations for continued uncertainty in retail. It also includes the 53rd-week impact, which is estimated to add $200 million in sales or $0.02 to $0.03 in EPS. Retail gross profit assumes higher occupancy expenses and the mixed impact from off-price growth. Merchandise margins reflect the solid inventory position heading into the fourth quarter.

Our SG&A assumptions remain consistent, reflecting higher technology and supply chain expenses associated with our growth initiatives. As a result, the deleverage in our SG&A rate for the full year is expected to be relatively similar to what was experienced year-to-date. This is normalized for onetime items such as the $22 million legal settlement gain in the fourth quarter of last year.

Based on better-than-expected performance, credit EBIT is estimated at $165 million compared with our prior outlook of $145 million.

In closing, we're well positioned to execute on our healthy plans and remain focused on delivering a differentiated customer experience.

With that, I'll now turn the call over to Trina for Q&A.

Trina Schurman

Thank you, Anne. (Operator Instructions) And as a reminder, we'll not be commenting on the October 16 announcement. We will now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from the line of Oliver Chen with Cowen & Company.

Maksim Rakhlenko - *Cowen and Company, LLC, Research Division - Associate*

This is Max on for Oliver. We were wondering if you could update us on your thoughts on what's going on with beauty? And do you see opportunities in that segment? And then, can you update us on handbags as well?

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Yes, this is Pete. As you've heard us mention in the previous calls, our beauty business has been consistently good for quite some time. The more that we can elevate and differentiate our product offer and particularly the more kind of prestige type brands that's been good for us. There's been a good trend around wellness and natural wellness. Our team has been on that -- been all over that stuff. So it's a solid performer for us. Beauty's doing fine. I don't really have anything to report otherwise there. In terms of -- I'm sorry, the other question's handbags?

Maksim Rakhlenko - *Cowen and Company, LLC, Research Division - Associate*

Yes.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

In particular, our handbag business has improved. And the biggest driver there is designer handbags business which has been very good.

Operator

Our next question is coming from the line of Ed Yruma with KeyBanc.

Edward James Yruma - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

I know you mentioned that Rack is kind of landed a little softer than you would have thought at least earlier this year. As you sit back and think about it, is it due to the cannibalization from other Rack stores? Is it -- is the off-price environment changing? Or are these kind of self-inflicted kind of quality of inventory issues?

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Ed, this is Blake. I supposed it's fairly appropriate to look like it in that matter holistically. Internally, we look at the opportunities we have to improve the execution. And that's why in my comments, I talked about the inventory opportunities we have. It's just -- in any retail business, it's critical, obviously, to have the best merchandise and good values. It's particularly true in an off-price business. And having planned that were now, in hindsight, too aggressive caused our teams to have to pull back a little bit. And so we weren't the market as aggressively as we would like to have been to ensure that we have the right freshness and flow and, again, corresponding values. We think that culminated a little bit in that downward trend that we saw in the third quarter. We're very pleased as we start the fourth quarter that we're in line. We think we're well positioned to serve the customer through this holiday time period. But to answer your question, we think is those execution opportunities reside primarily with us, and we're anxious to try to turn that around here in the fourth quarter.

Operator

Next is Paul Trussell with Deutsche Bank.

Paul Trussell - *Deutsche Bank AG, Research Division - Research Analyst*

In your slide decks last year, you often would kind of update us on kind of the growth investments as well as the drag to the EBIT from some of those items like the Canada rollout, Trunk Club, Manhattan preopening. Just -- if you can just touch on that in terms of what you're seeing from a top line and an EBIT standpoint on a number of those items.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thanks for the question. This is Anne. So as you mentioned, we do have a lot of those in generational investments that have come through the pipeline in the last couple of years. I believe the beginning of the year, we gave guidance that some of the drags from Manhattan was going to be about $30 million for preopening costs. As you can imagine, if you philosophically step back, you'd -- as some of these come online, you can assume that we're going to see more leverage coming through to our EBIT number. We'll be able to give you more guidance and context around this when we give our 2018 guidance on the next call.

Paul Trussell - *Deutsche Bank AG, Research Division - Research Analyst*

Got it. And then just -- then a quick follow-up on -- you showcased the deleverage from technology and supply chain. Just how should we think about that on a go-forward basis, especially given the sustained growth in e-commerce? What are the opportunities to provide some offsets, savings? And -- or what kind of sales growth will it take to actually, once again, be able to leverage that line item?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, so I think if we step back and look at the business model, we continue to evaluate how do we serve the customer in a way that they want to be served and investing in that as well as how do we maximize our investments in different -- various markets. And we really are leaning more towards markets where we have more strength. So as we step back and think about it, we're trying to balance that with driving more productivity and driving efficiencies. We did a great job last year of bending the curve in those 3 key areas between supply chain, technology and marketing. We're continuing to see that we've got opportunities. And I called it out in my comments particularly in supply chain to drive more efficiencies.

Operator

Next is Bob Drbul of Guggenheim.

Robert Scott Drbul - *Guggenheim Securities, LLC, Research Division - Senior MD*

On the credit revenues up 25%, can you just talk a little bit about were there just a reduction in the standards on credit? And is the assumptions on bad debt? Or just how to think about the profitability in the remainder of this year and into next year?

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Well, Bob, this is Blake. I think it's important to note that we did not change our standards on how we view credit with our customers. Our team is really executing well, both within the credit division and obviously in those areas that touch the customer as we execute and service the customer. We're now 2 years into a partnership with TD, and that partnership is exceeding our expectations. And I think that's reflected on those results as well. So overall, it's not a change in the standards. It's the customer and our folks are really getting behind this program, the loyalty program and what it has to offer in terms of value for our customer, and it's a meaningful part of our results.

Operator

Next is Mark Altschwager with Robert W. Baird.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just on the guidance. If I'm looking at the numbers correctly, you brought the midpoint of the EBIT -- retail EBIT down by about $45 million. I think $17 million of that was related to the hurricanes' sales guidance roughly unchanged. So I guess, if you exclude the hurricanes, maybe just talk about what changed regarding your views for the remainder of the year? you just balance between gross margin and SG&A spending from here.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, thanks. So when we set up the guidance the way we looked at it is we did narrow the range, and it was because -- and we're still tracking in line with our full year expectations. What we updated that we incorporated our Q3 results as well as the impact from the hurricane and then the continuation of our underlying trends and it also took into account some of the ongoing uncertainty in the retail environment. We recognize we still have a lot of volume left to do in the fourth quarter, and so we're just focusing right now on executing on our holiday plans.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it. And maybe just a quick follow-up there on the gross margin. Are you able to quantify the headwind if from off-price mix and the occupancy deleverage for the fourth quarter?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

We generally don't provide detailed guidance at that level. What I can tell you is that we've had pretty consistent regular price selling in our full-price business. And entering into the fourth quarter for both off-price and full-price, we're in a very good inventory position. So we do believe our March margins are going to be relatively stable.

Operator

Next is Adrienne Yih with Wolfe Research.

Adrienne Eugenia Yih-Tennant - *Wolfe Research, LLC - MD and Senior Analyst Retailing, Department Stores & Specialty Softlines*

I wanted to talk about -- or inquire about sort of the mall traffic environment in the A-malls and also about rent concessions that you might be seeing that might impact 2018. And then, secondarily, others have talked about sort of the cadence, especially regarding sort of cold weather apparel sales in late October and early November, so you're really picking up. If you can comment whether you've seen that as well.

James F. Nordstrom - *Nordstrom, Inc. - Executive VP & President of Stores*

Sure. Adrienne, this is Jamie. I'll take the first part of that and then give the second part of that to ? Anne and Pete's going to talk about weather. In terms of traffic, we typically look at transactions as a proxy for traffic. And for at least the last several quarters, the transactions have been very consistently correlated with our sales trends. So we don't really see much change in traffic patterns of late. And to your question, I think you would expect that traffic is better in the better malls, the more productive malls. And so nothing really to point to there. In terms of rental concessions, we do very, very little of that. And it's unique to some portions of our designer business and a couple other.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Jamie, I think your question was more, if malls maybe had some opportunities, was there some opportunities partnering with the mall owners for some changes in our rent. And I think (inaudible)

Adrienne Eugenia Yih-Tennant - *Wolfe Research, LLC - MD and Senior Analyst Retailing, Department Stores & Specialty Softlines*

But that was interesting, too. You should go in that direction.

James F. Nordstrom - *Nordstrom, Inc. - Executive VP & President of Stores*

Okay. All right. I misunderstood the question.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Tell her if you want to talk about that.

James F. Nordstrom - *Nordstrom, Inc. - Executive VP & President of Stores*

Yes, I-- Well, I think what I'll say is we have very good relationships with our big mall partners and keeping close contact with them around opportunities to improve those centers. And we have done a number of things, not really around rent structures but in how we can make those centers by partnering with those guys better, and we've done a number of those things. Blake mentioned that this past quarter we opened a new store in Century City as well as a relocation within the same mall, University Towne Center. Those are both Westfield properties. Westfield has made big investments in those properties, and they're better. And we're really excited about it. And so far, our results were really good. So we continue to look for more opportunities along those lines.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

I think the other part was cold weather. I don't know if Pete want to take up merchandising.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Yes. I mean, I'm probably just going to state the obvious. But obviously, the weather had an impact on it. I think what you saw from us in the third quarter is it was unseasonably warm through big parts of the country until late, and that had a negative impact to our results, as it got a little cooler at the very end, it improved some. And then we'll see how that all works out for the fourth quarter. But we look at that stuff really closely. We have a lot of data to mine over the history of how this has all worked out and try to ensure that we're allocating and slowing merchandise in appropriate timing is a big part of the execution of this business. So the weather's out of our control, but we're prepared for it. And we do benefit from a change in seasons and when that -- the cold weather comes along for sure.

Operator

Next is with Simeon Siegel with Nomura.

Simeon Avram Siegel - *Nomura Securities Co. Ltd., Research Division - Senior Analyst of U.S. Specialty Retail Equity*

What's your proprietary brand penetration at this point? And any thoughts to how large private brands could become? And then just -- sorry for the dumb question. Could you all parse out the difference in the margin flow-through between $26 million of hurricane impact at $0.06 versus the $200 million of 53-week sales at $2 million.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

This is Pete. I don't know if we'd give out the specifics around our own label penetration. I think we do -- I can tell you that it's growing some, and that's a purposeful thing for us. We've had really good success with our own label brands. Blake mentioned that they do perform a little bit better in terms of their gross margin. And I think increasingly, we've got to figure out a way to be really good at developing and sourcing our own products as well as partnering with brands that are willing to have a bit of a limited approach to distribution. I think that, that's worked really well for us. when you look at our brands that falls in that bucket, whether it's our own label brands or the ones that are relatively limited, they are outperforming the other brands. So we definitely think we're on a good path there. I will tell you that we have a lot of common issues with our major suppliers and when you can put 2 heads together to work on that as a partner, it definitely creates good outcomes.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

And then on your question on the hurricane impact and the 53rd week. So for hurricane, we have additional color on our release that went out today. But just in general, Q3 had top line impact of $20 million and Q4 has an estimated impact of $6 million and then it's $0.04 impact for third quarter and another $0.02 for fourth quarter. For the 53rd week, we think it's roughly around $200 million of sales and a $0.02 to $0.03 improvement to the fourth quarter.

Operator

Next is Erinn Murphy with Piper Jaffray.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

I guess I had a question on the spread between your Rack brick-and-mortar comp versus the dot com. It's been wider than we've seen in the past. Can you just talk a little bit more about what's driving the dichotomy there, if it's category or assortment or promotional cadence? And then I do have a follow-up on your Reward customer.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

This is Blake. I think we've talked about this over time longer from a full-price point of view, but we're newer in terms of our digital business ramping up in an off-price point of view. But we look at it as a total off-price business. And so separating bricks-and-mortar stores from digital, those numbers are getting more and more blurred. And so we just want to make sure that we're offering the experience in a manner or the way that customer wants to shop. And the NordstromRack.com and HauteLook business last year did $700 million. I mentioned a while back that it's the fastest-growing business we have in the history of our company, going to $1 billion, so it's a meaningful part of the business. Overall, our total off-price business is $5 billion. And so where that ends up going, that's up to the customer. And so we look at it combined, and at this point, it's a healthy business and we see lots of opportunities, and we're encouraged by it.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. And then just on the reward customer. I think your active count is at 9.9 million. It's still growing, but this is the lowest incremental customer add we've seen in the third quarter. And I think the percent of spend by these customers decelerated from Q2. Can you just talk about what kind of longer term how you kind of expect this to ramp going forward?

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

This is Erik. We're very encouraged with our loyalty program, adding a tender-neutral option to it is a great way to enhance the participation there. We see a long runway ahead of us really connecting our experiences things like our mobile experience with our loyalty program in particular as much price -- which still feels very early innings for us to continue to enhance that program and then to leverage one of the big benefits of the program, which is the data we get from that to better serve our customers.

Operator

Next is Dana Telsey with Telsey Advisory Group.

Dana Lauren Telsey - *Telsey Advisory Group LLC - CEO & Chief Research Officer*

As you think about this upcoming holiday season, any differences this year and last year, whether it's marketing programs or initiatives that we should be watching? And then some of the initiatives that you've done like Tesla in the store in California, I mean I saw good traffic there. Any updates on some of those initiatives that you've tested and played with?

James F. Nordstrom - *Nordstrom, Inc. - Executive VP & President of Stores*

Dana, this is Jamie. I'll take that. I'll take the second part first. I think what our partnership with Tesla represents is really about us trying to bring in experiences and product into our stores that create a sense of discovery for our customers. We want to be a place where customers go to find something new. And the more that we can go out and find really interesting product and experiences and bring them to the store, we make those stores better. So we're always looking for those things, and we think that our customers expect. In terms of services for holiday, a lot of the new tweaks that we'll be rolling out are around making shopping in our stores more convenient. We just recently announced that in some of our biggest markets, we'll be offering a 24-hour curbside pickup for our customers who are especially time-starved and needed to do their shopping at odd hours of the day. And that's an example of how we're looking at all of our capabilities that we've invested in over the last few years and how we can leverage them to improve our service and make the experience better.

Operator

Next is Charles Crom with Gordon Haskett.

Charles P. Grom - *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

And if I could just circle back on the retail EBIT question that somebody asked earlier. If I take the delta between your old and new, and it looks like about $45 million and $17 million is for the hurricanes, so that leaves least a balance of $28 million. I guess, I'm just trying to get a better understanding for what's changed relative to the guidance you've provided in August?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

So again, we're in range of what we gave guidance on in August. We did take down the high end of the range. But relatively speaking, we are in line. And so what we did was we do baked in the hurricane and we did bake in our Q3 performance and then we also took into consideration our current trends when we gave that guidance.

Operator

Next is from Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs Group Inc., Research Division - MD*

I was hoping to ask a bigger-picture question. As you guys think out over the next 3 years or so, what strategic initiatives you are most excited about in terms of anything, whether it be transformational or just how you can sort of get to the customer better and drive market share? So maybe just kind of prioritizing what things you're most excited about as you look over the next few years.

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

This is Erik. What tops the list for us is really looking at our business by markets, and we've been talking about that this year. It's -- it may sound subtle but it's a significant change in doing our business as opposed to looking at our stores as four-wall P&Ls or e-commerce business across the whole country. I was really looking at customers in a given market, what assets do we have that we can leverage to serve them better? And if it goes to things like something that we have placed for a while, like buy online, pick up in store and store reserve, which you heard Jamie say is ramping up, style boards, curbside service. But in particular, if you think about our market, our assets in addition to the digital assets we have which are in all markets, our physical assets of having the stores, the people in the stores and the inventory. We have a lot of inventory that's deployed very close to where the majority of our business is done. And there's supply chain initiatives that are part of that. There's marketing initiatives that are part of that, that we're very excited about that will allow us to do things for customers that really, we don't see anyone else who can do some of these things. And Nordstrom Local's part of that bigger effort. So I would put that at the top of the list for us.

Lindsay Drucker Mann - *Goldman Sachs Group Inc., Research Division - MD*

Are you able to expand on the things you can do for customers that others can't?

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Well, we'll take Nordstrom Local as an example. So that's a store that's focused on services, and it's described as a store without inventory. The stockroom for that store is all the stores we have in the Los Angeles area. For things where our customer has a couple-of-hour window to get their products. So things like a stylist appointment, a buy online, pick up in store, reserving online and trying on in the store. We have tremendous selection that we can offer the customer there and offer it in a more convenient way. We know mall traffic is down and some customers are looking for different ways, but still touching and feeling the products. And having Local we think is something that we're uniquely positioned to do.

Lindsay Drucker Mann - *Goldman Sachs Group Inc., Research Division - MD*

Got it. And as you think about over the next few years, are your margins, are your retail operating profit margins about where you might expect them to be? I know you're not giving guidance for next year, but just sort of a longer-term view on where margins should be.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

So as we continue to look out -- we're not giving guidance for '18. I would just say that the way we look at the business and we've had consistent selling of a regular price especially in our full-price business, we've been relatively stable in the last several quarters. And so we continue to look at having limited distribution in our product, and we continue to really drive clean execution in our inventory. And so I would continue to expect that we'll be focusing on staying stable.

Operator

Next is Paul Lejuez with Citi.

Paul Lawrence Lejuez - *Citigroup Inc, Research Division - MD and Senior Analyst*

Just going back to Rack for a second. Can you maybe talk about at a store level what you're seeing from a traffic versus ticket perspective? And also related to the availability of goods, just trying to understand maybe what went wrong during the quarter. Are you saying that there wasn't kind of the right stuff out there available? Or is it that the right stuff was there and you just weren't buying the right stuff? So just more a little bit of a clarification on that point.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

This is Blake. It really goes down to, do you have the best stuff and do you have the best price? And the fact that we saw downturn a little bit indicates obviously that customer wasn't as enamored with some of other choices and our execution. We are not saying that there was a lack of merchandise opportunities out there. What we are saying is that we got overcommitted to the sales plans -- or to the sales results that we had it didn't enable us to be as fluid in the market as we'd like to be to chase the business a little bit. So it's a very fragile balance of having the right flow, having the right balance and a coupled with great values. And so we really view that as our opportunity in the marketplace. Some of our competitors are showing consistent results and the vendor partnership work with have merchandise, but we just couldn't get aggressive with some of those opportunities because we had fully committed earlier in the year. And so we've made some pretty aggressive changes with that planning to put us in a position today where we're in line, and we think we have a good plan for the fourth quarter. And I think it will be very important when we come back next quarter how are those results and where the various initiatives we had to improve execution did it resonate with the customer.

Paul Lawrence Lejuez - *Citigroup Inc, Research Division - MD and Senior Analyst*

How about the traffic versus ticket at the store level?

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

I'm sorry, I forgot that. So our average unit retail has been very consistent over time. We did see units come down slightly, and that's reflected in the sales numbers.

Operator

Next is Brian Tunick with Royal Bank of Canada.

Brian Jay Tunick - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

One shorter-term question first. Can you maybe give us more details regarding the slowdown in the e-comm at the full-price business? And do you expect it to accelerate into the fourth quarter? And when you look at benchmarking, I guess your shipping options versus some of your competitors, do you think you're on par with them or need to make more investments? And then maybe the bigger-picture question is, I guess given the omnichannel investments you've made and the blurring of all the lines you're talking about, are there new profitability or ROI metrics you're looking at inside the company compared to how we look at retail metrics outside?

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

All right. There's a lot there. Let me start with the -- our trends at Nordstrom.com. Our trends are actually pretty darn consistent and have been in the mid-double digits all year, and we're very encouraged with our trends there. With the month to month -- the timing between shipped sales and the returns that come from that can drive the timing of those sales. So as you know, we had a very, very successful Anniversary Sale online and the returns we get from those sales show up the next month and a bit a month after that. So removing those timing issues, our trends at Nordstrom.com are very consistent, and we're encouraged about that. In terms of shipping options, that is a place that we think we can absolutely win with the customer. Again, it's leveraging our assets. We have a lot of different ways for the customer to engage with us and a lot of different ways of connecting the merchandise the customer wants with how they want to receive it. So be it in a store, be at their home, be at the discovery portion being digital or in the physical environment. So you'll continue to see us offer more options for the customers because we think a part of it is not just getting merchandise to the customer faster, it's giving the customer control of how they want it while also offering as much selection as possible for the time frame that they want to get the merchandise. And then about metrics. Do you want to take that, Anne?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Sure. So as we've been talking about in the last couple of calls I think. As we talked about the omnichannel continues to evolve. And I would look for us to be more -- to share more in the next several quarters as far as how we are continuing to look at the business and evolve.

Operator

Next is Matthew Boss with JPMorgan.

Matthew Robert Boss - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

So SG&A dollars per square foot basically up mid-single digits this year. If same-store sales after this year remains negative low single digits, I guess how best to think about further efficiencies or just any flexibility to rightsize SG&A next year? I guess, particularly with higher expenses related to the Manhattan opening.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, so thanks for the question. I think you have to step back and looking at things on a same-store sales basis on a bricks-and-mortar, given the fact that we just talked about the omnichannel and that we were -- how the customers shop is getting very blurred and very blended. So when we look at our SG&A and we look at top line, I don't know if it's a fair metric to try to link the 2 together because it is becoming so blurred how the customer's shopping us. So I think going forward, as I talked about my comments, we are not giving guidance for 2018. Having said that, when you look at our different markets, we are balancing our investments to how the customer wants to be served but also looking for continued opportunities and productivity and the driving scale in the investments that we have made them to continue to make.

Trina Schurman

Great. We'll now take one more question.

Operator

Our final question is from the line of Kimberly Greenberger with Morgan Stanley.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Blake, I wanted to just follow up on the Rack, and I had a quick follow-up question for Anne. Is the fix on Rack just simply have -- your starting year with a more conservative sales plan so that you get the inventory in line? Or do you think a higher sales plan is okay but rather wait until you're in season to buy more of the inventory. I just wasn't sure what the right strategic fix is there.

Blake W. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Okay, Kimberly. Yes, I -- we started the year with a inventory and sales plan that was a couple hundred basis points higher than actual. And we should be striving for the opposite of that. We should always maintain a couple hundred basis points to allow those to have the flexibility to be able to respond to the business in a more timely manner. And so I think that was probably the biggest driver of opportunity, but there's lots of things that we think there are opportunities in our execution. From afar, it's relatively simple business. To execute though at this level of $5 billion and as productive as it is, there's a lot of nuances to it. And so our team has been working hard just last year. None of us are satisfied with these results, but there is a sense of optimism and encouragement about the things they've been working on and how that positions us better to be able to respond going forward to the customer. And so we believe we can get back on the fourth quarter hopefully to the first half trend. That's what we're focused on, but we need to show improvement, and the last quarter certainly was a reflection of the customers indicating that we have some opportunities.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Great. That is super clear. And then, Anne, just to follow up on the margins. Could you talk a little bit about what type of IT and supply chain spending is driving at what I think was about 8% growth in SG&A? And is there -- are there any strategies in place to perhaps bring the SG&A dollar growth rate down in future years? Any thoughts would be helpful.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, sure. Thanks for the question. So as I mentioned, we aren't going to give specific guidance for '18. But having said that, let me just give you a couple of examples of what we've been focusing on from an investment perspective. So we talked about migrating more to the cloud as we've been progressing, so it's really swapping the same cash dollars, it's just whether it's expense or capital. And what the cloud-based solutions allow us to do is it's easier to scale and it drives better performance overall, both internally and as well for the customer experience.We've also been investing quite heavily in reducing customer friction so we're simplifying our checkout, looking at ways to improve our payment options. So all those things take investments. On the supply chain side, we've really been focusing on reducing the amount of cancellations, which allows for more top line growth and better customer experience and then improving our split shipments, which also improves our cost centers for better customer experience. So those are the types of things that we're looking at. So there's an investment, but there's also a flow-through that you will see post implementation. So as we continue to go through -- we've talked about the fact that we've got some general operational investments coming along with Manhattan, so you would expect us to start seeing some leverage on that because we are investing ahead of the curve, and we are continuing to make investments to drive a better customer experience, but also drive productivity and scale in the business.

Trina Schurman

Thank you for joining today's call. A replay along with the slide presentation and prepared remarks will be available for 1 year on our website. Thank you for your interest in Nordstrom.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. We thank you for your participation.
