JPMORGAN CHASE

Moderator: Matt Boss
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Coordinator: Welcome and thank you for standing by. All participants will be able to listen-only.

Today's conference is being recorded. If you have any objections, please disconnect at this time.

I would now like to turn the conference over to Mr. (Matther) - I'm sorry, Mr. (Matthew Boss). Sir, you may begin.

(Matthew Boss): Great, thanks and good afternoon. It's Matt Boss, JPMorgan's Department Stores and Specialty Softlines Analyst. For our final fire side of the conference, we have Nordstrom's CEO Erik Nordstrom and the CFO Anne Bramman.

Erik, I figured I'd pass it over to you and Anne for any opening remarks and then we can jump right into questions.

Erik Nordstrom: Sure. Thanks Matt. And thanks everybody for participating. We appreciate it under these extremely strange, unusual conditions. And I thought we'd just start off, you know, with the obvious, given this context, in unprecedented times, how we're viewing things. A couple of points I'd like to make upfront.

Number one, while these are most unprecedented times and changing quickly and none of us have been through this, the changes we think that, and we do believe these are going to drive changes with our customer and our industry, but we think these changes are really directionally consistent with what we've been seeing for quite some time and have been investing against. As far as the move towards digital, the role that physical retail plays,
we think we can give you some examples of how we see that. But really the customer changing how they want to shop and being in control and the blending of physical retail that way.

Secondly, you know, we've taken a lot of actions, I think fairly quickly, with the view of keeping our company healthy for the longer term. We don't think this is a 30-day event, a 60-day event. From everything we know, it's going to take a while for retail, especially our part of retail, to rebound.

So we took a lot of actions to enhance our financial flexibility and we looked at all stakeholders to do that including: shareholders with their dividend, pay cuts with our leadership team and our board, furloughing employees, terms with vendors, kind of everything we can to position us for the long-term. And we feel really good about liquidity there.

And then lastly while this is a crisis and a time of great change, we also see some opportunity here. We see opportunity to take on these short-term challenges, but with an eye towards what type of company and our industry is going to be like when will we come out of this.

We think that's generally consistent with the direction we've been heading the last year. But crisis often provides opportunity to drive change more quickly and that's what we're really focusing on as we come out of the immediate short-term decisions of the crisis to look more deeply at the capabilities we want and how we want to show up to customers and the competitive advantages we can have.

Anne Bramman: And Erik - I just want to add that, you know, you've seen us take a number of actions and Erik addressed some of those. It is about having the most financial flexibility. You saw that we exited 2019 with roughly $850 million of cash on our balance sheet. We also have a revolver of $800 million that we drew down.

And as Erik talked about, we suspended the dividend, we have stopped share buyback and we've targeted more than $500 million of operating expenses, capital expenditures and working capital to improve incremental cash flow by at least $500 million for this year.

We're also very quickly realigning our inventory with sales trends. We've done a lot, as Erik talked about, we furloughed some of our employees. I would also add that not only our board, they're not getting a cash payment, but the executive team is taking pay cuts and then Pete and Erik have also declined their salary through September.

So we take this very seriously. We have a responsibility to our people, to our customers and to all our stakeholders and it's really about taking these steps that not only ensure the short-term, but also the long-term health of the company and coming out of the other side positioning us well.

(Matthew Boss): Great. So one of the themes at the conference the last couple of days has been companies with the ability to emerge from this crisis, potentially even in a stronger market share position to your point Erik. Some companies have talked about deepening the connections with the consumer throughout the outbreak or foundational investments that they have made into this.

How do you think that Nordstrom is positioned? What you see as the opportunity for Nordstrom to potentially emerge from this crisis as a stronger and even more efficient company?

Erik Nordstrom: Yes, a couple of things on that. One, I would start with our business model. We have stores and online, but more digital capabilities than most in our categories - it's about a third of our sales being from e-commerce.

There is also the interplay of our Full-Price and Off-Price business. We have a very strong Off-Price business both in stores and online. The online portion of our Off-Price business, NordstromRack.com and HauteLook is unusually large. Online, off-price is a tough model on its own, but it's part of our ecosystem. It a very important part and it's a big business.

There is a synergy amongst all those businesses for us. Online – Off-Price does not operate in a silo for us and you may have heard us talk about this before, you know, our Rack stores are our biggest and most efficient new customer acquisition point that we have and a third of those new customers each year become Full-Price customers too.

And in general, any engagement we can get with customers, any additional engagement, you make that customer a better customer. So those customers that, for example, come to us through Off-Price, not only start being

introduced to Full-Price, but they spend more with Nordstrom Inc. because of their Full-Price spend. They spend more in Off-Price too.
And that goes from online to stores or from stores to online as well. There is a synergy to that with customer acquisition, with customer migration. There is a synergy certainly with our inventory, with vendors. We've been a more important retail partner with vendors. We're able to clear out excess inventory from our Full-Price channel through our Off-Price channel which for the next six months or so is going to be really important for us.

There is also a synergy just in the business model and they're one of the nice parts right now. It gives us a lot of flexibility and we can pivot and emphasize different parts of our business. It seems obvious to say that we're only a digital business right now with our stores being closed. But that shift to online is only going to be accelerated through this and having both Full-Price and Off-Price mature businesses there. It gives us a lot of opportunities.

The other part I'd touch on would be around engagement. Part of what goes with customer's journeys being both digital and physical (unintelligible) engagement is higher (unintelligible) every case that (unintelligible) that can be the (unintelligible) in stores, but it's also across services. And [alterations] which I like as an example, because it - by definition it's a physical service. It's not something that can be done online, it's overall craft (unintelligible).

The largest employers [of tailors] in North America (unintelligible) that we develop, and we know it's our customer engagement point that when we do it, it results in a lot of great customer metrics, improving trips, spend, et cetera.

We have a good reputation for service and services. We (intelligible) the capabilities by having these strong physical footprints where Full-Price in in all A malls (unintelligible) and Off-Prices in in all small locations into (unintelligible). Our plan is to (unintelligible) locations more focused on Full-Price which we can get into when we talk about our market strategy.

We have a little (unintelligible) that we have capability of digital and physical and look at the physical ones to buy from market that we can bring to serve them better, to bring them the curated selection that they want and the speed and convenience that they want, but also introducing them to newness is our business.

Matt, you touched on kind of the extreme differences in retail these days that if your selling necessities that's a good place to be, that's not us. We're not in the commodities business, we're in the newness business and most of our customers, they don't shop off a list; they're interested in something new.

So being able to introduce them to new brands, new products, it's something that's very important to our business. And we think really the price of admission more and more is having really top-notch capabilities both in stores and online.

(Matthew Boss): Maybe to touch on and to stick with the e-commerce, so your ecommerce is best-in-class. I think it makes up over a third of your sales today. How are you able to evolve your marketing spend and shift consumer traffic online? And can you, Anne, just remind us of Nordstrom's profitability profile online relative to brick and mortar stores?

Anne Bramman: Sure. Erik, do you want to take the first part and I'll wrap it up?

Erik Nordstrom: Sure. Well, (unintelligible) our marketing serves channels, its (unintelligible) and automatically it does. So our [marketing that], we generate, we [for the] purpose of driving online demand gives great (unintelligible) benefit to stores.

So (unintelligible) massive (unintelligible) the people right now and types of products. There is also services. You know, before COVID hit, our [buy online] pickup in stores, you know, really impressive the growth.

Those capabilities which, you know, a number of retailers have in other categories, you know, Walmart, Target, Home Depot, Best Buy, there're some really good examples of people who are using their digital and physical assets to bring products to [customers because that's what customers want. Customers who start their] shopping journey online and then pickup in store is something that really resonates with the customer.

I think [that this] will be important when - as we come out of this. So, we're looking to come out emphasizing more of the services [that] we have.

The other (unintelligible) over the years and not, you know, just through the crisis is our unique merchandising mix. You know, we have [most of our] product is – not necessarily exclusive, but limited distribution and our product is not found everywhere and, you know, we're not the everything store and it's about discovery and that comes from scarcity. So to be the retail partner of choice for the best brands in the world and getting some limited distribution, that's important and we think that's going to continue.

Anne Bramman: And your question Matt on the economics, and Erik's touched on this, the beauty of our business model is we actually do quite a bit of store fulfill for online orders. And so that helps us in some of the breadth and that piece to our inventory management is actually a part of how we're fulfilling some of our e-commerce orders today and having access to inventory that is in the stores.

The economics from a Full-Price perspective is, from a contribution margin, our digital business is at parity with the stores business and the reason why is because, they share this inventory, so your margin structure from a merchandise margin perspective is the same. And then you've got variable cost between the stores. And to remind you, our store associates, our employees are on a commission base, so it's a variable labor cost. And then on the e-commerce side, it's the supply chain cost, so those basically offset each other.

(Matthew Boss): Great. As we think about, I guess two things to take a step back and obviously thinking before store closures. Your full line doors, you'd seen a nice sequential improvement the last two quarters. Maybe Erik, can you talk to some of the drivers of the organic improvement? Maybe where we stand today and where do you see incremental drivers of improvement?

And Erik, just a side note, at the end of your last answer, you were in a great spot, before that you were breaking up a little. I don't know if there is a good spot where your reception is best, but you were breaking up a little bit, but we could still hear you.

Erik Nordstrom: Sorry about. I have to…

(Matthew Boss): No worries. Okay.

Erik Nordstrom: …I'm in the basement of my house I just want to find where good reception. All right, I'll move around if it doesn't come through. You know, we certainly exited the year with some momentum and really improved performance in the second half of the year versus the first half. A lot of that benefit came from improved loyalty, digital marketing and merchandise balance.

But a lot of our Full-Price improvement has come from the traction we're getting from our market strategy. And we were able to expand this to five of our top markets in the fall, things like buy online pickup in stores is much enhanced from our market strategy. Basically, we're able to bring a significantly higher selection to customers with faster delivery. And that's helped drive a lot of business. So when customers come into a store really for any reason, but for order pickup, they do tend to buy other things there.

We also get returns back faster which may not seem like a big deal, but returns are a big part of fashion business especially when you're doing it online, and to have customers who - when they come in store to pick it up, most of those customers do try on the merchandise there. If they're going to return it, we get it back faster which helps our inventory returns and our profitability there.

(Matthew Boss): Great. So maybe just a follow up to that as we kind of think about one of the big initiatives I know going forward is the local market strategy and I myself have tested it out in New York. Can you maybe provide an update on the evolution of the local market strategy, maybe touch on performance to-date?

I think you've cited 2020 as the opportunity to scale the initiative. And just how we think about maybe even more near term just the convenience dynamic as we come out of this that you think this strategy might allow the customer?

Erik Nordstrom: I'm sorry. You broke up a little bit there. You asked about market strategy?

(Matthew Boss): Yes, the local market strategy, just how best to think about the performance to-date and the evolution of it?

Erik Nordstrom: Yes. The performance has been very strong for us. And, you know, we started in Los Angeles about two years ago now and our goal - really are a couple of things. Number one, to engage customers more with services and across channels really addressing some friction points along the way there.

And secondly, it has been to better leverage the inventory we have. Inventory is our biggest investment and mostly it sits in stores and most of our stores are close to where most of our customers are.

While we've been on the same platform for a long time and to be able to leverage inventory across stores and online, there're some opportunities to do that even more. An easy way to think of that is the inventory selection that we're able to bring to customers for same-day or next day delivery has gone up depending on the store from 4-7x for our market strategy and having better connections between there.

We've had great results out of Los Angeles. We launched in New York in the fall with our flagship opening there, and then expanding it to Chicago, Dallas and San Francisco. We have plans to add five more markets in our top 10 as we get into this year.

Results have been very strong and those results ultimately are about market share. Whether the sale is online or in stores, you know, we're looking at overall market share and what we're seeing, where we've had the launch test in Los Angeles, so we're seeing good results there.

(Matthew Boss): Great. And then on the other side of the store business, your Off-Price business the last two quarters has also picked up. Maybe just touch on - and I don't know maybe some of the answers are similar to the Full-Price business, but what drove the slowdown over the last 12 months? Have you course corrected and just how best to think about the Off-Price channel now going forward?

Erik Nordstrom: Yes. Well Off-Price, you know, we had some challenges across all of our business at the beginning of last year particularly with our loyalty program, you know, going all digital with our notes, we had some problems with that. And it sort of impacted Full-Price and Off-Price.

Associated with that, was changes in the mix of our digital marketing. We had to reset both those, and we did have some merchandise mix issues both in Full-Price and Off-Price. They were a little different, but we had some issues there. Off-Price, you know, really addressed all three of those areas and our team really executed very well last year. And at that - really about the halfway point of the year, we were able to achieve more traction on the topline and the bottom-line flow through was very strong all year long there. We had a good year in Off-Price.

And I think for Off-Price, what's important, the main driver of that, is that treasure hunt - the finding great products at a great price. And our team really did a good job at that. Our space there merchandise-wise is a little different.

You know, we did compare it to like the big Off-Price players of T.J. Maxx or Ross or Burlington and our merchandise mix is different there. Our average price point is higher than those players in our merchandise mix. Really the foundation of it is the same brands that we carry in Full-Price. And bringing excess and opportunistic buys at a great price to customers of those sought after brands is really our sweet spot.

(Matthew Boss): Great. Maybe to switch to margins, with the current store closures and obvious uncertainty in the economic backdrop exiting the crisis, and maybe near term, how are you planning to manage inventories, to keep inventories current given the sudden closure of stores and obviously the unprecedented events that are playing out?

Anne Bramman: Yes. As I mentioned in my opening comments, the good news is we exited the year with strong discipline around the spread between sales and inventory. Even exiting out of the year, and we talked about this in our press release, that in February, we were actually on plan until COVID-19 hit everybody in March.

We clearly have a lot of telemetry and operational big rigor on making sure that we're managing our inventory. Now clearly when you've got 70% of your business shutdown, your store business shutdown, there is inventory in the stores.

Again, having that shared inventory between our e-commerce digital platforms and the stores, it's allowing us to do fulfillment out of the stores as well as continuing to serve our customers through our Nordstrom.com and NR|HL, our NordstromRack/Hautelook.com sites. That's helping us manage that inventory piece.

I would also say that we, like everybody, are looking at our receipt plans and being very aggressive and making sure that we're managing through those during this time. And we've also talked about the goal of having, by the end of the year, that inventory is in line with sales plans.

So it's going to take a little bit of time, but you've seen that we're actually actively managing that and actually we're out, ahead of this a little bit and some of the stimulus we're running on our digital sites to drive demand for the inventory out there.

We're actively managing it. We're looking at it. We're managing from a, as Erik talked about, we've got more breadth than depth in our inventory and we're a fashion retailer. And so it's perishable and so we are looking to maximize the amount of cash and return that we can get on the inventory that we own.

(Matthew Boss): To that point, what is your flexibility as we think about say Fall or holiday receipts? How far out today are you bought? And then, maybe to your point on the fashion side, what percentage of your mix or just any way to think about more the perishable side?

So, you know, maybe those skews that are more fashion oriented and maybe you have to take more of a near term markdown versus others where, you know, not as much a pack away, but maybe doesn't need to be sold in the first quarter and could still be sold in the second or third quarter. So maybe just that inflexibility with receipts and just how to think about your mix of products?

Anne Bramman: Yes. I don't think we really have split out how much is fashion versus what we call replenishment, or some of your basic pieces. What I will say is we actively work with our vendor partners on this. I think we've got between Pete and our merchant team some very good relationships out there. And so we've been having a lot of healthy dialogue with our vendor partners on how to manage through this on both sides.

I'll take our Off-Price first. It's a shorter term buy process, right. So it's very opportunistic. And again, coming into the year, this team really showed exceptional operational discipline and having a much more turn in the inventory and having more opportunities to chase.

Coming out of COVID-19, you know, I think our Off-Price guys are kind of super excited, because they see a lot of opportunities coming out of the second half of the year, because clearly people are going to be clearing out of inventory at that point in time and it's going to be opportunistic for them.

On the Full-Price side, again our Off-Price is a way for us to also help manage the inventory. And, you know, we are actively looking at, as you mentioned, you know, more higher fashion, how much do we own, how much is on order. And as far as the fall and holiday, we're not in that season yet. You're really looking at more of your spring and summer receipts.

(Matthew Boss): Great. And to take a step back on the gross margin overall, as we think about gross margin today versus, I think in excess of 37% at peak levels. And as we take a look out and think back to your 2018 investor day, I guess how best would you outline a realistic target for gross margin longer term and if we we're thinking Full-Price versus Off-Price, do you see opportunity to expand gross margin at both channels or one more than the other? How would you rank gross margin opportunities from here?

Anne Bramman: You're in the moment today, so we're not giving a lot of forward guidance at this point. But what I can tell you about is what we saw in '19, especially exiting out of the year. And so even though I think most people would say that 2019 was a highly promotional environment, we were really pleased that our merchandise margins increased versus last year and that exceeded our expectations.

Again, it goes back to how we have been very disciplined on inventory: increasing turns and then maintaining that positive sales and inventory spread throughout the year for 2019.

And, you know, we talk about our strategic partnerships and Erik alluded to this earlier, we're not the everything store. Having that curated assortment, having those relationships, that unique offering, or relatively unique offering, actually helps you from a margin perspective particularly in our Full-Price business, because, it's less of a commodity out there. And so that actually helps you maintain some of your margin rate.

I think the last piece to it is you mentioned there are peaks. You know, there is a couple of things that are going in there. Over the last couple of years, we've built our Off-Price business which has operating leases which is in the occupancy cost.

And then again, as we brought in New York, the depreciation for New York and we will be opening up our West Coast Fulfillment Center and those that are in the occupancy cost that are impacting us for 2020 that we talked about in our last earnings call.

(Matthew Boss): So on the expense front, maybe just to switch gears, how best to think about, you know, the variable cost within your SG&A and just any buckets or areas of flexibility while stores are closed and with some of the difficult decisions that you're making such as maybe flexibility on the SG&A and expense front?

Anne Bramman: Yes. I think you've heard this story from us for quite some time and we've been continuing to focus on getting scale out of the digital investments we've been making for quite some time. In this environment, what we're seeing right now is really paying off for us between the digital marketing, the tech side of things and our ability to do fulfillment both in stores and in our fulfillment centers. And so that's actually really, you know, helping us get some scale and leverage out of that.

From a variable cost perspective, it's everything. We talked about the store labor piece in Full-Price is variable because it is a commission rate structure. And then you can certainly flex some of the other pieces to it as well.

I would say in this environment, going into the year, we targeted an incremental $200 million to $250 million of expense savings coming through and that was on top of the $225 million that we did last year. It was primarily in our fixed overhead expenses that we've been reducing to get more scale and flow through. And then we've also announced this in the last couple of weeks that we're actually going after even more.

The question we get a lot is on our variable versus our fixed cost, I think you can see from some of the decisions, the very difficult decisions we've made that everything is kind of variable at this stage, nothing is off the table and we're certainly looking at every possible way to make sure that we are flexing our cost environment to mirror what's going on around us.

(Matthew Boss): Yes, it's a great point. And one of the key themes in the past two days is from a number of companies that every expense is now variable. And for some companies, that seems to even include rent. How are you approaching leases or any conversations you're having with landlords and do you view, occupancy as more near term variable cost?

Anne Bramman: Yes. So just - you know, we always remind people that in our Full-Price stores we pay very little rent as the anchor tenant. And we own about 70% of our Full-Line stores. The bulk of our operating leases are in our Off-Price business. I think it's a different conversation than what maybe others are having.

(Matthew Boss): It's a good point. On the operating expenses in addition to the $200 million to $250 million that you had already announced, on the additional bucket of $500 million, maybe are there any examples? And trying to think, you know, are those costs that we should think of as permanent? Is that a permanent step down in the cost structure as we think about the ability to leverage sales going forward? Or is this something this year, the actions that you're taking in light of some of the unprecedented changes in the backdrop?

Anne Bramman: Yes. Clearly, it's a mix. We have done some furloughing of some of our corporate employees and we've reduced cash compensation for our board and executives. Some of that's going to be a short-term piece to this as everyone shares in our long-term (unintelligible) liquidity.

But I will say this is also a great opportunity for us to step back and think about how the business is evolving and how we will continue to support the business going forward as well.

I think we'll be able to share more on our next earnings call. But at this stage, we're continuing to balance the long-term, the short-term and the medium term.

(Matthew Boss): And then just last question I had on margins and it's really to circle back on - I think Erik talked about Nordstrom as a one stop shop with the Full-Line and the Off-Price and how the interplay between the two. As we think about the inventory management and we think about some of the Full-Price inventory with stores closed and your ability to clear that inventory and maintain a clean position, how do you balance the use of the Off-Price channel in the Rack versus allowing it to be a true Off-Price model?

Meaning, how do you make sure that the inventory coming from the Full-Line doors, which I think historically is somewhat minimal, doesn't impede the ability of the Rack to act as a true Off-Price business?

Anne Bramman: Yes. We call it the Full-Line transfer, the transfer of product from our Full-Price business to our Off-Price business as you mentioned is pretty minimal. It's around 10% to maybe 15% of the inventory that's in the Off-Price business.

And it's actually part of the treasure, to be honest. When you go into a Rack store, you actually see signage that talks about the fact that we just got this in from the Full-Price business and customers really respond to that.

It is a great outlet for us. It's a great way to showcase for the customers that shop with us. But it isn't going to be a 100% of that Off-Price business either. There are a lot of opportunities, as I mentioned in my earlier comments, for our Off-Price business too. And they do a lot of close outs. They do a lot of excess inventory buys opportunistically out in the marketplace. This is a big flexibility for them as we come out of this.

(Matthew Boss): Great. And then just last couple of questions were more around balance sheet and liquidity. You have $800 million of cash on the balance sheet, you announced that you've drawn down $800 million on your revolver. I guess what's your overall confidence, maybe Erik or Anne, just overall confidence in Nordstrom's financial position today and maybe just the mindset behind the revolver draw, just any larger picture thoughts on the balance sheet and financial condition today?

Anne Bramman: Yes. So why don't I start off and then maybe Erik you'd want to opine from your perspective. You lived through a lot of ups and downs in this company and it might be helpful for people to hear your perspective on this as well.

Matt, I just want to correct, we had $850 million on the balance sheet at the end of the year and then we did have the $800 million that we did pull down on the revolver. What I would walk you through is that we've done a lot of stress testing in our business with a lot of scenario planning.

And our objective is to make sure that we've got ample and appropriate cash and liquidity to weather a lot of downside scenarios as well as ensuring that we're well positioned as we come out of this. We're not taking this as a 30, 60, 90 plan. We're looking at this as a longer term how to emerge as a stronger, better business.

We've been taking a lot of precautionary measures to do that and I've walked you through a number of those as well. But it is about making sure that we've got cash liquidity and we're continuing to have flexibility as we weather the storm.

Erik Nordstrom: I will just add, I've probably been around a long time and been through lots of ups and downs. And the situation is unlike any other we really had. And we've always had a very strong balance sheet and we entered the year with a large cash balance, and a move that Anne made has helped a lot.

And we're of the position as we looked at the uncertainty, certainly for the rest of the year and getting into 2021, flexibility is paramount. And flexibility from the liquidity we have and (unintelligible) partially to the flexibility in the marketplace. We want to give ourselves the ability to buy product much closer to need both so we have the right quantity and there can be great products at great price that are available to those who happen to be open to buy. And we've made a lot of progress in the last couple of weeks that provides that capability. And again, I would just come back to - or enhance that capability - that flexibility is having both Full-Price and Off-Price. Where we can move products around and really do what's best for our business.

(Matthew Boss): That's great. And then just last question from me is you noted in your release in terms of accessing the financial markets that you would look to potentially also raise capitals when prudent. Could you just elaborate further on additional options and Anne, on your scenario analysis, is there a point of time at which store closures if they were prolonged, would require additional actions beyond what you've taken so far?

Anne Bramman: Yes. Without going into details of our scenario planning, we've taken some pretty I would say draconian points of view on what happens in the U.S. economy, what happens in the retail space and so that all informs our thinking. And it was one of the reasons why we put that comment in our release as far as making sure that we got financial flexibility.

There are a number of options that are out there and we wanted to signal that we are going to be opportunistic about it. But as we've been talking about on this call the name of the game is the most cash liquidity and flexibility as we position ourselves for the mid and long-term.

(Matthew Boss): Great. That's great to hear. And I think that's also a very good place to wrap up. Erik and Anne, I wanted to thank you for your time and your transparency and wish you the best of luck. And please stay safe.

Erik Nordstrom: Thanks Matt.

Anne Bramman: Thank you too. We appreciate everyone's interest in us.

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