NORDSTROM Q1 2018 EARNINGS

Blake Nordstrom, Co-President

Good afternoon, and thank you for joining us. Our first quarter results reflected our ongoing efforts to integrate our digital and physical assets to serve customers in new and relevant ways.

Our overall sales performance was in-line with our expectations. We delivered total sales growth of 5.8 percent. This included an increase of around 250 basis points primarily from a loyalty event shift. Comp sales, which are reported on a like-for-like basis, increased 0.6 percent.

The investments we're making in digital continue to pay off. During the quarter, we generated a 18 percent increase in sales enabled through our digital capabilities compared to the previous year.

Our Full-Price comp sales increase of 0.7 percent was generally consistent with our trends. Our Off-Price comp sales increase of 0.4 percent. While we're not satisfied with recent trends in our stores, we're focused on making improvements to our Rack business.

On April 12th, we achieved a significant milestone in our company's history with the opening of our first-ever full-line men's store in New York City, located near Columbus Circle. This three-level, 47,000 square-foot store features our latest service experiences to help serve customers on their terms, including express returns kiosks, same-day delivery, 24/7 Buy Online & Pick Up in Store, and unique brand partnerships.

Our men's store opened ahead of our New York City flagship-which is scheduled for fall 2019 - and we're off to a good start. Manhattan is a premier retail destination and represents our largest online market serving customers. Based on our experience of introducing full-line stores in new markets, we also expect this flagship to deliver a meaningful sales lift in New York City.

This quarter marked another important achievement with the introduction of Nordstrom Rack in Canada. Like our experience in the U.S., we expect synergies between our full-price and off-price businesses. We're seeing terrific results from our three store openings this spring in the Toronto and Calgary markets, with three more openings planned for this fall.

We continue to grow our strategic brand partnerships with a focus on establishing Nordstrom as the partner of choice for brands and providing customers with newness. We want to create a sense of discovery through these collaborations while supporting our regular-price selling. Our strategic brands include new and emerging partners along with established ones.

During a time of transformation in the industry, we've been investing in digital capabilities to expand our customer reach and engagement. This uniquely positions us to increase market share and drive growth. Our customer-focused approach informs how we allocate capital with the goal of driving customer engagement, market share gains, and improved profitability.

In our top markets, we're further integrating our digital and physical assets across supply chain, technology, marketing, and merchandising to deliver differentiated services and experiences. To lead our efforts, we recently named Ken Worzel as our chief digital officer. As one of our top leaders, Ken is instrumental in driving our digital strategy as we continue to evolve our business. He will also continue in his role as president of Nordstrom.com.

This year we're launching efforts to link our capabilities in our largest market-Los Angeles-and recently kicked off our efforts with a group of highly engaged customers to co-create unique customer shopping journeys. We intend to apply our learnings from L.A. to quickly scale to other markets.

We continue to see positive trends in customer metrics, which are an important way we measure our progress in gaining new customers and increasing engagement with existing ones. The growth in active customers and customers shopping across multiple channels continues to outpace sales growth, which helps contribute to market share gains.

As we aspire to be the best fashion retailer, our customer strategy is centered on three strategic pillars: providing a compelling product offering, delivering exceptional services and experiences, and leveraging the strength of our brand. Now I'd like to turn the call over to Anne to provide additional insights into our financial performance and outlook for the year.

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Anne Bramman, Chief Financial Officer

Thanks, Blake and good afternoon everyone. We had a solid start to the year, reporting Q1 EPS of $0.51.

From a top-line perspective, overall sales were consistent with our expectations and reflected strong digital growth. Additionally, credit revenues came in better than expected, the result of our recent efforts to drive new account growth. In Full-price, our core U.S. business had stabilized trends. Also, Trunk Club showed significant improvement. In Off-price, sales were slightly below our plan, reflecting outsized digital growth offset by Nordstrom Rack stores' performance. As Blake mentioned, we expect improvements throughout the year.

Turning to gross profit, our rate was down approximately 20 basis points relative to last year. This was due to higher occupancy related to U.S. and Canada Rack openings, in addition to planned pre-opening expenses associated with the New York Men's Store. Merchandise margins were in-line with expectations and the prior year, reflecting continued strength in regular-price selling trends. We exited the quarter in good inventory position, with sales growth exceeding a 2 percent decline in inventory.

Our SG&A rate was roughly 30 basis points higher than last year, primarily due to pre-opening expenses for the New York Men's Store. Our SG&A rate performance reflected an improvement relative to recent historical trends as we continue to benefit from productivity gains in marketing, technology, and supply chain.

Next, I'd like to provide further insights on our path forward. As we shared in last quarter's call, we expect 2018 to be an inflection point for improved profitability based on the following drivers:

- We've made generational investments in Canada and Manhattan and through our acquisitions of HauteLook and Trunk Club. We anticipate operating improvements as these businesses scale.
- We're also benefiting from productivity gains as a result of foundational investments in our capabilities. We expect ongoing opportunities for improved expense leverage, particularly in marketing and technology. In supply chain, we continue to invest in creating end-to-end value and improving the customer experience.
- Our strategic brand partnerships represent another lever that enables us to provide a compelling product offering and strengthen our regular-price selling.

Now I'd like to take a moment to remind you of our capital allocation principles.

- First and foremost, our priority is to reinvest in the business to create long-term shareholder value. Over the next five years, our capex plan of $3.2 billion, or 4 percent of sales, supports investments in digital capabilities and new market opportunities in Manhattan and Canada.
- In addition, we seek to return capital directly to shareholders through dividends and share repurchases. We recently announced a quarterly dividend of $0.37 per share and resumed share repurchase activity.

- And finally, we remain committed to maintaining a strong investment-grade credit rating.

Turning now to our full year outlook, we've narrowed the EPS range to $3.35 to $3.55, raising the low end to incorporate our first quarter performance. Our full-year sales outlook remains unchanged, reflecting a comp sales increase of 0.5 to 1.5 percent. Our updated EBIT outlook assumes current revenue trends at a mid-teens growth rate.

As a reminder, our outlook includes the following sales timing considerations:

- While comp sales will be reported on a like-for-like basis, total sales will be impacted by an event shift from the Anniversary Sale.
- Additionally, revenue recognition is not expected to materially impact full-year sales, but there will be associated impacts related to the Anniversary event shift.
- These two combined factors are estimated to create a timing impact to total sales growth by approximately 150 basis points in Q2 and Q3. Please refer to our appendix for further color.

Finally, before we turn to Q&A, we'd like to announce our plans to host an investor event on July 10th. This will give us an opportunity to provide further insights into our customer strategy, how we're positioned for the future, and drivers of long-term value creation. We plan to webcast the event and will follow up with more details.

Now, I'll turn it over to Trina for Q&A.