NORDSTROM Q1 2016 EARNINGS

Prepared Remarks - Blake Nordstrom, Co-President, Nordstrom, Inc.

Thank you, and good afternoon. For the first quarter, we had a sales increase of 2.5 percent and a comp decrease of 1.7 percent, which fell short of our plan for a low-single-digit increase. Despite our focused efforts to manage through this current environment, we are not satisfied with our results. Given these sales trends, our inventories were too high, which puts pressure on our margins and necessitates additional markdowns. Our team has aggressively addressed our inventory position, and as a result, we ended the quarter with inventory up 5 percent vs. sales growth of 2 percent. For the balance of the year, our lowered inventory plans put us in a much stronger position to manage the business more proactively.

In addition to our inventory management efforts, we're continuing to evolve our operating model to support our growth strategy. On April 18th, we announced expense reduction efforts, predominantly here in our Seattle headquarters, of $60 million. This includes elimination of approximately 400 roles, which is about 7 percent of our corporate positions. This will improve our focus and execution and make us more nimble to respond to the business environment. Later, Mike will share more on our expense reduction efforts.

As we look at the balance of the year, we are actively implementing a number of initiatives to drive top-line growth and improve the customer experience.

- On May 18th, we're rolling out an expanded Nordstrom Rewards loyalty program that will allow all of our customers to earn rewards with or without a Nordstrom card. Our Rewards customers are many of our most loyal and best customers, spending 4 times more annually. Today, only about one out of five customers are part of our program, yet their spend contributes roughly 40 percent of our sales. This opportunity to reward all of our customers is big. Over the next 12 months, our goal is to add 5 million customers to our program. This will drive more sales and trips, and more importantly, it will enable us to better engage with our customers.
- On the technology and e-commerce side, we are investing to create a more seamless experience across stores and online. This reflects continued modernization of our technology platform, including a scalable merchandising solution, as well as service and experience features. These are significant projects; they account for two-thirds of our overall technology investments this year.
- We're building on the continued success of our Canada expansion with two full-line store openings in Toronto this fall. With Toronto representing the most productive market in Canada and one of the top markets in all of North America, we see this as a significant opportunity. We believe these stores have the potential, along with our international flagship in Vancouver, B.C., to be among our highest-volume stores.
- In the U.S., we plan to open our second full-line store in Austin, Texas, which is a dynamic and growing market.

- Our strategy remains squarely focused on serving customers on their terms. Knowing customers desire an experience that's both personalized and convenient, we are making improvements to enable our customers to shop seamlessly any way they choose. In our stores, our overall focus is to improve convenience. As a recent example, we enhanced the buy online, pick up in-store experience by providing curbside pickup in all of our full-line stores. Additionally, we are upgrading our scheduling tool to support our teams' efforts to ensure we have the right people, in the right place, at the right time. This will help improve customer service and productivity.
- On the merchandising side, we are dedicated to having the brands customers want, with a keen eye towards product differentiation. We know customers desire newness in fashion but are being more deliberate with their purchases. We are seeing great results from our recent collaborations such as IVY PARK, Topshop, Madewell, Brandy Melville, and Charlotte Tilbury. We will continue to introduce and grow relevant brands that are compelling to our customers while having limited distribution.
- Moving to off-price, Nordstrom Rack represents an important channel for us to serve more customers and increase cross-shopping. Last year, 5 million new customers shopped at the Rack. This is meaningful because over one-third of our Rack customers will over time also shop in our full-price business. We've been pleased

with our six stores that have opened so far this year -- their sales exceeded our expectations by more than 10 percent. We plan to open 15 more new stores this fall.

In closing, we recognize that the pace of change is increasing, so we're working diligently to evolve our business to best serve our customers. This means continuing to make the tough, but necessary, decisions that will ensure we are set up for continued success. We are confident that through our initiatives, we are competitively positioned to deliver the products and experiences our customers want. I’ll now turn it over to Mike, who will provide more color on our performance along with details on the changes we are making to our business.

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Prepared Remarks - Mike Koppel, EVP & CFO, Nordstrom, Inc.

Thanks, Blake. As we head into the balance of the year, we expect that uncertainty in sales trends will continue and have built that into our outlook. We are implementing comprehensive plans to ensure that we can execute levers around inventory, expense, and capital, all while maintaining our strong financial position. These plans also incorporate our commitment to liquidity and working capital needs by optimizing our inventory turns. We are aggressively prioritizing our resources to assure that every dollar spent is meaningful to the customer experience, and we will continue to challenge activities that are not.

Now, I'll provide additional color on our first quarter performance. Our earnings per diluted share of $0.26 were below our expectations, primarily due to lower sales volume and higher markdowns as we align inventory to current sales trends. Our results also included credit chargebacks and severance charges of $0.10. These chargebacks, which were significantly higher than planned, related to an industry change in liability rules that took effect last October. In early February, we completed the roll-out of our chip-enabled point-of-sale system. As a result, we have begun to see these chargebacks decrease and anticipate a smaller residual impact in the second quarter.

Moving to the top-line, we had a comp decrease of 1.7 percent and total sales increase of 2.5 percent. Our full-price businesses -- which include our full-line stores, Nordstrom.com, Trunk Club, and Canada -- had a comp decrease of 4.3 percent. This softness was broad-based across stores and online, as well as across merchandise categories, although we had notably tougher trends in jewelry and handbags as well as some of our larger-volume brands. On a positive note, we continue to see customers desiring fashion and newness, reflected in consistent regular-price selling as well as strength in our new and emerging brands. Our off-price business, including stores and online, had a comp increase of 4.6 percent.

In addition to inventory management, expense rigor is a key component of our plan. We are making strategic decisions to invest in our future growth while focusing on areas where we can further streamline. We continue to move forward with our emphasis on technology as a top priority, committing one-third of our capital investments. In March, after considerable planning, we implemented a new technology operating model, which included adding technical expertise at the senior management level. We are confident that these improvements will lead Nordstrom's next phase of growth and innovation while continuing to optimize productivity and reduce complexity.

We are also executing on a number of initiatives to increase efficiencies across our supply chain and marketing functions. In our supply chain, we have an ongoing opportunity to improve the unit economics of product delivered to customers. We are refining our online assortment through greater focus on key brands and categories while editing less profitable items. We are also improving our merchandise allocation process between stores and fulfillment centers, leading to a reduction in split shipments, lower cancellation rates, and better in-stock positions -- all of which ultimately improve our customer experience. Similar to our efforts with technology, we are taking steps to increase marketing effectiveness across our enterprise.

All of these changes are part of our broader, ongoing efforts in improving our operating model. Through our actions, we expect to generate this year over $150 million in expense savings, inclusive of $60 million from our corporate realignment efforts. We continue to explore further opportunities to maintain flexibility in responding to changes in business conditions and customer expectations.

Our third lever, in addition to inventory and expense discipline, relates to capital deployment and allocation. Given the changes we are seeing in our industry, we are in the final stages of a thorough review of our five-year capital plan. This includes prioritizing our investments to achieve our stated goal of mid-teens return on invested capital. We will provide updates on these plans once they are finalized.

Now, I'd like to address our financial outlook. In updating our plans for the remainder of the year, we feel it is appropriate to realign our outlook given the uncertainty in trends and expectations for a continued promotional environment. Comp sales are expected to be between a 1 percent decrease to a 1 percent increase, compared with our prior outlook of flat to a 2 percent increase. Our earnings per diluted share expectation for this year is $2.50 to $2.70, compared with our prior outlook of $3.10 to $3.35.

In closing, while the pace of change continues to accelerate, our commitment to serving our customers remains unchanged. With our experienced leadership team, we are confident in our ability to manage through this current cycle. We maintain a healthy balance sheet and cash flow that will support the best interests of our customers, employees, and shareholders over the long-term. Now I'll turn it over to Trina for Q&A.