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EDITED TRANSCRIPT

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PRESENTATION

Rick Patel - *Bank of America Merrill Lynch - Analyst*

Thank you for being here. I'm Rick Patel. I'm an analyst on the specialty retail team at BofA. Presenter this morning is Nordstrom. We're very pleased to have Mike Koppel, who is Executive Vice President and Chief Financial Officer, and he is also joined by Rob Campbell and Trina Schurman from Investor Relations. I'd like to thank them all for being here and turn it over to Mike for some opening remarks.

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Thank you, Rick. It's always a pleasure to be here in March for the BofA Conference, and we appreciate the opportunity to talk to everybody. We have a few slides that I'd like to share that kind of give us some thoughts and context just to how we're thinking about our business and, hopefully, will help you guys as you think about us as a potential investment, as well as help with the Q&A, which will follow. So why don't we get started with that?

Safe Harbor. Okay, first slide, some of you who have followed us in the past have seen a version of this slide before. But we think it's important to start, because it does a really nice job of just setting the context of the space that we deliver experience to customers within the marketplace. We like to think that we have a broad enough exposure to a variety of different customers that has allowed us to grow the business and continues to allow us avenues of growth as we go forward.

We appeal to that aspirational luxury customer, which is, I think, a little broader than some of the more high-end. We've got a great off-price business with the Rack that continues to grow and still sees opportunities to open new locations. And with our recent acquisition of HauteLook, we continue to find ways to engage with a better price oriented, but discount customer in the online space. And what's interesting here is, we continue to see the consumer barbell and it's played fairly well with us over the last several years and that is, where we've seen growth both at the higher end and at the value end of the price equation.

I think what's really interesting about the time that we're in right now is, there's so much discussion about technology and e-commerce and all the new waves of things that are out there that are changing the way people live today. I think there's something that's never changed and what we believe that the values are providing a personalized service and great experience is not changing.

I mean, one of the things that's driving us to do the things we're doing and why we have pushed forward in some of the things we're doing is not necessarily -- because it's technology in and of itself, it's because we're trying to deliver the best experience we can deliver for our customers and it happens to be that those tools are what customers want.

And so we continue to believe that we want to be the absolute best in service and experience. We've done a lot in our stores to improve our service levels. Over the last several years, we've tripled the amount of personal stylists we have in our stores. These are folks that have the skill and the knowledge to sell across our entire store. We now have over 1,300 people that are qualified to do that.

Last year, we implemented the first wave of mobile POS in our stores. It was a good start. It's not the end. We've learned a ton about that. Our expectations are that within the next year, the functionality of those mobile devices will likely be in parity with the traditional cash register, and then going forward we'll exceed that. So we're really excited about the direction we're going there and it is improving the experience.

In addition, we've had a great loyalty program, and this year we believe we've made that loyalty program even better. We've made it easier for our customers to acquire next level, so they can operate at a higher level. We've established more rewards for customers based on the services we offer, like alterations and we've given them the flexibility to select their own triple point days.

So far the first two months of the year, we've had a great response. Our new account openings continue to grow fast. We opened over 800,000 accounts last year and we're on pace hopefully to exceed that this year. So we're very excited about the things we've done to continue to improve the service and experience.

In terms of relevance with our existing and new customers, we continue to find ways to better allocate and assort our product by store. And I think that's just a fundamental good thing in retail. You want to have the right stuff what people want it. And we through the years have aggregate a lot of information about how our customers shop, about the behaviors in a number of our stores and we are right now implementing tools that we believe is going to help us do a better job to assort and allocate product by location.

We're expanding our online selection. Last year, our Internet business grew at over 30%. This year, we're expanding the selection. More and more of our customers want to shop with us online, they want more choices to have. So we're not only expanding the selection, but we're building our infrastructure in that channel in order to deliver better experience.

And then lastly, we continue to evolve our offering. I think one of the things that we've been pretty consistent about over the years is allowing our merchants to try new things, to try new products, to innovate and be there for new products and nurture them to become really important brands. And we continue to do that. So that hasn't changed.

And then the last thing, as we believe part of delivering a great experience, is being a leader in e-commerce. I said before, we're expanding our assortment. We've done a lot to improve the speed of delivery. We made delivery seamless for folks who went to free shipping and free returns last year.

We continue to accelerate our investments in the online experience, as well as the infrastructure to assure we've got high integrity in our data. And like I said, improved selection, improved convenience, speed, they're all very important to what a customer wants there. So all of this goes back to the basic tenet of providing a great personalized experience.

I want to take a minute and talk a little bit about how we look at creating value, not only value for our customers and our employees, but value for our shareholders. For those of you that have followed us for a number of years, from the beginning of the 2000s to right up through when the recession happened, we made a lot of progress in really driving a lot of values to our operating model. And we did it through some very good disciplines around inventory management.

Our inventory turns improved enormously. We did a better job of getting our arms around the cost that made the most sense for our customers. And we were able to drive our return on capital up to roughly 20%. And I think we did a good job of communicating to all of you of what to expect based on the sales we performed and the kind of earnings that we would get from that.

And then some time in 2008, we hit a recession and we changed a little bit about how we saw things. We kind of stayed the course, hunkered down, assured that the Company stayed healthy. During that period, we also made some -- we continued to invest in multi-channel. We completed our multi-channel efforts in 2009, right about in the time that things started to come back. And then by 2010, our business started to stabilize and we started to see that earnings growth come back.

But during this whole period, we were still growing stores. From 2000 to 2007, we opened about 10 full-line stores. In 2008, we opened eight full-line stores. And then from 2008 through roughly last year, we opened over 50 Rack stores. So again, improvement in the financial model, combined with some good growth in the more traditional channels.

Going forward, and I think you've heard some of us say this before that we believe what's happening and what the customers are telling us is that a more personalized experience, whether it's through a mobile device, whether it's online through e-commerce, whether it's in the store, however, is becoming more and more important. And so we began in the back half of 2011 and we accelerated through 2012 some real recognition that we want to be a leader in e-commerce and we're going to invest in it. And the good news is we're on sound financial footing. We've got the resources, we've got the talent and we're investing very strongly.

Now what that means is our operating model has changed. The operating model that was very clear and predictable that existed for roughly 50 years during the Mall store roll-out is changing, okay? It's less about building stores and having a long-term investment in a store and it's more about investing in e-commerce. And those investments have more immediate effects, but they also tend to be more expense oriented and they tend to be quicker.

And so what you've seen from us is an evolution of a model that used to be more predictable in the P&L, but it doesn't change what we've always looked at and that is a return on capital combined with healthy topline growth, because if you see this chart, what drove valuation was basically the growth of the business complemented with a high return on capital. And that is still what we're working toward, it's just going to look a little different.

And from 2011 and 2012, you're seeing us accelerating our investments in e-commerce, in the years beyond that we're going to continue to fuel it. We don't know exactly what's going to change this constant newness and innovation out there, but we believe it's the place to be and during that time, we're still going to grow a lot of Rack stores and still deliver some pretty hefty volume with our full-line stores.

So what does that mean going forward? We believe we have continued strength in our core business. Some folks talk about well, is e-commerce cannibalizing the traditional four wall? We haven't seen it. Our four wall stores have been doing a mid single-digit comp, and our e-commerce has been growing at over 30%.

So we continue to want to maximize our relationships with our customers, continue to get the right goods in the right store at the right time, improve the tools that our selling people have like mobile POS and also the app that we have out there and better engage customers with what's going on in the stores, and then continue to improve on our loyalty and Fashion Rewards program.

We believe this continued opportunity for market share improvement in all our channels. And as I said earlier, we're going to accelerate our investments in this new channel, in this e-commerce channel, because we believe improved selection, better convenience, whether it's speed of shipment, whether it's how someone navigates online, whether it's how they use their mobile device is very important, the speed with which all that happens and then certainly the overall experience for the customer that the customer believes that they've had a great experience with the Nordstrom brand.

So those would be my comments and open the Q&A. Thank you.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

Yes. I'll [make the] Q&A start and we'll turn it over to the floor. So you have a lot of exciting growth initiatives in place right now. Where do you see -- what do you see as the primary driver of comp as we look forward? Is it market share? Is it this e-commerce growth that you're seeing? Or is it just pockets of the business (technical difficulty) improve upon?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes. Well, today, it's been mostly market share, because I think if you looked at the overall macro numbers, clearly, the overall retail sales in the US have not materially changed. We've seen strength in the customer we serve.

I think, one of the good news about the market we serve is the unemployment for the majority of the Nordstrom customers has been relatively healthy versus the aggregate unemployment in the US. So we've seen some improvement there in terms of better spending, but we continue to believe it's market share and our ability to continue to deliver great experience and let people know how we do that.

QUESTIONS AND ANSWERS

Unidentified Audience Member

I had a question on the basic business model. You talked about the store growth being the primary driver over the last 50 years. Shifting to e-commerce, how long do you think that lasts and in the meantime, do you also look at potentially international expansion? How are you thinking about that?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Sure. Well, in terms of how long it lasts, boy, we really don't know the answer to that question. If you go back in history, it seems like every channel was a little shorter than the one before it. I mean, how long was downtown urban shopping around before malls started to be built in the 1950s, probably a long time. And then malls are built in the 1950s and then had roughly a 50-year run. And there's still some activity, but clearly the growth there is not likely what it was.

In terms of e-commerce, it's a very fast moving space. I mean, would anybody have guessed five years ago where we are today? Likely not. So I think it's tough to know how long it's going to be, but I think it's very clear that that's where consumers want to go. So our goal is to get them there and to be there for them.

And then the second thing as far as international expansion, we've been open and clear that we believe Canada is a nice opportunity for us. There hasn't been a lot of great success stories of multiline department stores that have gone across the water. But we believe the Canadian customer would be great for our brand. As a matter of fact, there's a lot of brand (technical difficulty) in the major markets in Canada for us. It's our number one place that we ship internationally e-commerce. So hopefully, some time in the not too distant future we'll have some opportunities there.

Yes?

Unidentified Audience Member

Okay, thanks, Mike. I had two questions, one on 2012 and one on 2013. On 2012, you made a -- or I think Blake made a statement on your call that "Our 2012 investments will include a more customized approach to all aspects of our engagement with customers." Could you put a little bit more meat on that as what does that mean in terms of the stores and --?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes. Yes, sure. Well, I think part of that goes back to the comment around personalization. Customers are expecting a much more personalized experience because the information is there and you know them better. And one of the ways that we believe we can do that, we just put out an app, okay?

At some point, likely there will be functionality that we'll be able to tell a salesperson that their particular customer is in the store or tell the customer that their particular salesperson is there, or that the customer may be near the store and it could tell them that, oh, by the way this particular product that you've bought in the past, we have a new version of that.

So those are examples, I think, of what Blake means. Now just on a very traditional way, the personal stylist that we have in the stores, that is about creating a very personalized experience. It's about rather than somebody coming in and going into one department and getting great service in one department, it's about coming in and saying, these are my needs in general and getting help for an entire wardrobe and accessorize and building a relationship with the person that will be with them going forward.

Back to the technology side, I mean, there's opportunities to be able to track past purchases, perhaps to create a personal closet for somebody and being able to make selections in the digital space. All those things are going to interact with each other, but I think that's the kind of things that Blake was talking about.

Unidentified Audience Member

All right. So it'd sound more like using technology to drive salespeople productivity versus adding more people?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

The way we think about it is using technology to provide a greater experience. And whatever it's going to be to provide a greater experience, that's likely what we'll do.

Unidentified Audience Member

Okay. Thank you. And then on 2013, I guess, one of the bigger news out of your earnings report was the look for 2013 to accelerate EBIT growth and to drive margins up faster several years. Since that you've had an opportunity to see what others in the industry are doing, which is a big step-up in investment and you are very early there. So you had a little bit of a first-mover advantage. What's in that 2013 view that gives you confidence that you can do that? Is there a large bucket of spending that drops away or where is the confidence factor coming from?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Well, I think that 2013 view is the fact that we view 2012 as a pretty significant step change. So for example, included in 2012 is a fairly significant ramp-up in our infrastructure in the e-commerce business. We don't believe that we're going to have that same level of ramp-up in 2013. But that being said, it could be something else. I think that we did feel directionally that we would start to see some improvement.

I don't think, at this point, we would see a -- what I would call a dramatic improvement. I think it would be an improvement. And then the other side of that equation would depend on how well some of these investments we're doing are in terms of how they create business for us. But we do think 2012 is a pretty significant step change and at that same level step change likely won't exist in 2013.

Unidentified Audience Member

All right. Thank you so much.

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

You're welcome.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

And, Mike, can you talk about your core customer, just coming out of the recession, obviously, your comps have held up really well for more than a year now. How has that core customer changed? Is it the same person that's just buying more and that's being drawn to your fashion-oriented product or are you attracting more aspirational customers to your store?

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Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

I think it's a little bit of both. I made a comment earlier about the health of our customer. If you look at generally the customer who shops in Nordstrom, the unemployment rate of that customer had stayed in the mid single digits and has continued to drop versus the aggregate of the US, which was over 9%. So we had a customer that still was in relatively good footing, but during the recession lost a lot of confidence and basically it was the wealth effect.

And when that tended to heal, we started to see that customer come back. And so that customer has come back and is shopping, I think, with more confidence with us and more regularity. And I think some of the things that we have done to continue to attract newer customers to our brand, for example, the Rack. The Rack for us has been a terrific business. We've expanded its reach in the market. We've been able to acquire newer customers that necessarily didn't shop the full-line store, but shopping at the Rack.

We've now extended Fashion Rewards to that customer, because we believe that that is a way to introduce customers into our brand. We see the advantage with HauteLook. HauteLook, when we acquired that company had 4 million names on file, now it has almost 8 million names. Those customers tend to be a younger, more aspirational customer.

And so I think it's a combination of those things. I mean, we definitely see opportunities to continue -- you constantly want to have a new pipeline. We have fabulous customers at all levels of our business and segments from a demographic standpoint. And we think it's really important to continue to let folks know at earlier stages of the life cycle what we're all about.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

And can you talk a little bit more about the online channel, I mean, obviously, as you focus more and more on it? Perhaps characterize how big it is right now and where you see it getting to over the next 10 years and then, as that happens, and you have things going on like free shipping and free returns. What are the implications for margins?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Sure. Well, last year we exceeded $900 million in our online business. Like we said, we had over 30% growth. We continue to see great growth in that business. How big do we think it's going to be? We think it's going to be big (technical difficulty) I'm going to throw out there. But clearly, we wouldn't be committing the kind of capital, human resources, all the energy we're putting behind it and attention if we didn't think it was something that was going to be really important.

And in terms of margins, I think we're still learning. It wasn't too long ago, we talk to groups like this and folks would say well, jeez, with your growing e-commerce channel that certainly has better margins than the stores so you should have a benefit in your margin mix, because that's your fastest-growing channel. I think we're still learning about that. It's clear that the e-commerce channel doesn't have some of the cost that the stores have. It doesn't have the fixed cost element, in our case it doesn't have the selling commission element, but it's a more highly variable cost model.

And the investments that go into e-commerce to drive it aren't like 30, 40-year investments like building a store. When you invest something in e-commerce, likely it's a three to five-year life. And we're constantly refreshing the website, which is even a shorter life. So I think the bottom line is we're learning. And I don't think anybody really knows of -- I think of folks who are saying today that well, yes, there's definitely this model and this is what it's going to look like and you should expect it to look like that. Our opinion is that, I think, we're still learning about that, okay?

Yes?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

It's a great question. I'll repeat the question. So the question is, as we're expanding our selection online and adding more SKUs, how do we think about inventory levels and whether or not that that's going to create more risk from a clearance standpoint? The answer is, right now our inventories are roughly -- the investment in inventory online is roughly consistent with the percent of sales. So it's, let's say, roughly 10% of our investments. So we are accelerating the growth there.

On the aggregate basis, it's probably not as significant, to the direct business it's fairly significant. Whenever you expand selection and take a little risk, you're likely going to create some risk. But we'd like to believe that we're going to continue to try to select the best product and product that has worked very well for us.

I think, more of it is about going a little deeper and broader with brands that have been very successful. We're keeping a close eye on that, just like we have with the full-line stores. So I think we'd be naive to say that when you accelerate investment that is not increasing risk, I'm sure you guys feel the same way, but I think we're going to keep a close eye on that.

Yes?

Unidentified Audience Member

I think you showed in the chart that, in the mid 2000s your ROIC peaked at about 20% and now your goal going forward is mid-teens.

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Med-teens, yes.

Unidentified Audience Member

You would think that with spending on e-commerce and technology is not as capital intensive as building joint full-line stores, so your capital base and you would be actually growing less. So I'm just curious about why you can't get back to that 20% range?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

That is true, that is true that the capital base will likely be more efficient. The difference is, we got to that 20% after having multiple years of high single-digit comps and driving our pre-tax margins to almost 14%, right? I think getting pre-tax margins to that level with this model, the offset of having a more efficient capital base because of the e-commerce is that you have more going through the P&L, okay?

It's getting through the P&L quicker, but it's less than the capital. And so that's why we like to look at the two combined, because if we can achieve growth at that kind of capital rate, we are going to continue to create value. So that's why we're thinking about that. Now if we should be fortunate enough that our sales performance is measurably above our expectations, then, yes, you would get more leverage, but based on how we're thinking today that's our best thinking, okay?

Yes?

Unidentified Audience Member

Hi, Mike. Just a couple [little] ones. What's your current thinking on doing more shop and shops?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

The only shop and shops that we've really done have been with the real prestigious luxury brands. That's likely the space that we will stay in, if we do shop and shops.

Unidentified Audience Member

All right. Thank you. And then on Rack, you had a little bit of a soft buy in Rack, because of the inventory, your leverage, your full-price buying groups to bring more product in there. What's the outlook -- is that kind of a progression in that same direction or what's your outlook for the quality of the inventory in 2012?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Well, we continue to see opportunities to get great inventory for the Rack. And then, like I said, we've done more to improve the whole Rack experience like adding Fashion Rewards for Rack customers. The other thing that we're doing is we're going to roll out our mobile POS with the Rack, which is going to allow it. I don't know if any of you guys have ever shopped the Rack, but if there's anything that we hear about the Rack is the lines are too long, it's kind of good news, bad news.

The good news is, the lines are long as we're selling a lot of stuff. The bad news is that customers sometimes get a little unhappy with us. So we are going to roll out mobile POS. So we've tested it in a number of Racks. It's going to allow us to speed checkout, to reduce frustrated customers, and it's also going to free up a little selling space. So we continue to see opportunities there, but in terms of the product, to date, I personally haven't heard from the Rack team that they're feeling like they're not getting product that they'd like.

Unidentified Audience Member

All right. Thank you. And then lastly, California, important state for you. Maybe if you could just touch on how that business is pacing relative to total and then what's going on in the state relative to the regions North, South, and Central?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Sure. California, frankly Northern California and Southern-Southern California like the San Diego market has been doing very well. It continues to be basically the LA, Orange County area that is still not performing, as well as the rest of the group. But it is a positive comp, but not at the same levels as the rest of the group,or as Northern and Southern California.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

It's improving.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

A follow-up question on Rack. Do you ever worry that the off-price channel is just getting really crowded? I mean, you guys are growing. You have Off-Fifth that's growing and, of course, TJX is also expanding. What are the opportunities for real estate growth and longer term how do you see this channel evolving?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Sure. Well, competition is a good thing. One of the things we have always found is that the more competitors we have around us when we have stores, the better we do. We think competition is a good thing, it makes you better. I mean, I know there's a lot of folks coming in the space, but we're happy to compete.

I think in terms of real estate opportunities, we continue to see -- our plans show roughly 15 new store -- new Racks a year for the foreseeable future. We continue to see great opportunities to open Racks. We've got great reception from customers and markets and newer markets we've gone to. Our stores are operating at a very high return on capital. And we feel really, really good about that opportunity. So we'll just keep going.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

Can you also talk about the merchandise opportunity at Rack? I mean, just what you use -- how you use Rack as a clearance vehicle as opposed to creating products, specifically for Rack and what's the potential opportunity?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes, sure. What we have -- right now, I would say roughly 20% plus of the product that's sold in the Rack comes from our full-line stores. I recall, when I first joined Nordstrom about 12 years ago, one of the things that impressed me having come from another major department store was how clean the full-line floors always looked. And one of the reasons for that was the Rack. The Rack was a great vehicle to move product quickly, so the full-line stores constantly kept fresh and the turns were high. And we continue to do that and do it well.

As we've grown Rack that percentage is a little lower than it was historically. The other product is primarily all direct buys from the majority of the same brands that we buy for the full-line. I mean, we are buying almost all the same brands in the Rack as we buy for full-line, but clearly we're buying from their off-price offer. So we continue to feel real good about that. And then we've also -- with the acquisition of HauteLook, we've also found ways to combine opportunities for HauteLook with the Rack to increase our ability to buy within the marketplace.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes. Hi.

Unidentified Audience Member

Hi there. I was wondering if you could talk about the women's apparel business. It's been a struggle for many years and I know you've experienced that as well, and most recently we're hearing some comments from others about improving trends there. So I was wondering if you would talk about your experience and if you're seeing that, what do you think is driving that?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Well, first, I would say that, yes, we have been experiencing challenges in women's apparel for a number of years. We think we have opportunities to improve the shopping experience for our customer, make it simpler and easier to understand on our floor. We think there's opportunities to have more of a branded message and we're working on that. I think we would be the first to say, we don't have all the answers right now.

In terms of improving trends, I don't know what kind of trends people are talking about. I mean, our trends in women's apparel, frankly, have been roughly consistent with what we've seen for a little while. Now it could be that that's 100% owned versus somebody else is doing something a little better. (technical difficulty) but we still believe it's a big opportunity for us.

Yes?

Unidentified Audience Member

Mike, I wanted to ask you a financial policy question.

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Sure.

Unidentified Audience Member

Can you talk about the free cash flow priorities? Can you talk a little bit about what guardrails you look at as you look at the balance sheet, what type of metrics? And with the cost of borrowing being so inexpensive right now, is that something you're looking at to maybe issue some debt and buy back shares or do something along those lines?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes, sure. Well, we have a couple of guardrails that we use to manage our capital. One is, just the underlying belief that we can get the highest rate of return or reinvesting back in the business. So we want to find opportunities to reinvest back in the business and grow our business. That's very important to us.

In terms of how we think about the balance sheet, we've been pretty consistent in talking about and we even disclosed it in our 10-Q, adjusted debt to EBITDAR, we believe that we want to be in the range of somewhere a mid 1% to a mid 2% adjusted debt to EBITDAR. Right now we're in a little bit of the higher end of that range. We'll likely be in the middle when we pay off a secured note that comes due in April. And we feel good about that.

We want to be a very, very solid A investment-grade company. We think it's consistent with our brand and it's consistent with us wanting to have the flexibility to take advantage of opportunities that we can continue to build and grow our business. So that's how we think about it from a debt side. We've been repurchasing shares over the last, I guess, year, year-and-a-half since things settled down from the recession. We have a very clear point of view as to how we do that. We do it through a 10b5-1 plan. We do it based on what we believe as -- we buy more at certain valuations and buy less at other valuations.

And we like to balance all that by keeping somewhere between $0.5 billion and $1 billion in cash on hand. So we look at all that and that's how we do it. We did borrow last year, we borrowed a little over $800 million, got great rates in the market. One was a secured offering, one was an unsecured offering. I think at this point in time we'll continue to manage the balance sheet within the framework that I just discussed.

And we will likely lever, but stay within that, but likely not just go out for the purpose of levering up to repurchase shares just for that. We did that once before. Our sense is that's a little reactionary, and that it makes more sense over the long term to have much more of a policy guardrail-driven approach rather than try to time to market. So that's how we're thinking about it, okay?

Rick Patel - *Bank of America Merrill Lynch - Analyst*

I have a question on your private label assortment. Just two-part question really. I mean first of all, where do you see the opportunity in terms of expanding into categories? And second, as we think about just the inflationary cotton environment we had in 2011, can you talk about the implications of the merchandise margins for that assortment for the first half of this year and then perhaps talk about what the margin upside is for the back half?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

Yes, sure. Well, our private label right now is roughly 11%, 12% of our total offer. We've seen opportunities and we try to capitalize on opportunities in gaps where we didn't see brands fulfilling some of the needs. And that's been in a number of different categories of our business. I mean, we think there's still opportunities there, but we've always approached private label not so much as a way to blend margin, but as a way to serve our customers better.

So if brands don't have the offering that customers are asking for, then we'll develop it and do our best to sell it. But we don't necessarily go out there and say, okay, guys, we need more margin. We're going to expand the penetration of private label, because that may not be what the customer wants. So that's been our historical approach to it.

In terms of the impact, because of the inflation, the so-called inflation of product last couple of years, we were saying during that period we didn't see it that much, and I would tell you that was pretty true. I mean, we had certain pockets that, yes, some categories, some specific items had more inflation than others in the aggregate. It really didn't have a material impact on our business. And so as a result, any changes that may happen going forward will likely not have a material impact on our business.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

Okay. Just time for maybe one or two more questions. If you don't have any, I'll ask you. Do you sense a different level of confidence in your customers just given the market rally we had earlier this year?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

I can't say I could do an absolute beta on that one. I think it's too soon to tell. I mean, clearly we had a really good February, but whether or not that the market rally drove that or that was just a question of offerings/weather patterns/whatever could have been the market. But I can't say whether or not that was a benefit or not. I know you guys would like to believe that, but I don't know.

Rick Patel - *Bank of America Merrill Lynch - Analyst*

And I'll conclude just by asking, what do you see as your biggest obstacle and then what keeps you up at night?

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

I think our biggest obstacle is and challenge is the fact that, we have a very execution-oriented company that delivers great service to customers and we've done it well for a number of years within the traditional four wall model. And we have this new channel of growth that is different.

We want to deliver the same level of experience in that channel, as we deliver in the traditional channel, but how you go about it is differently and thus it's different skill set, different cultures, different things like that. And so our ability to be able to continue to evolve and be consistent to our brand with another variable in the mix, I think, is going to be probably one of our biggest challenges. Okay?

Rick Patel - *Bank of America Merrill Lynch - Analyst*

All right. Well, let's leave it there. Thank you very much for being here.

Mike Koppel - *Nordstrom, Inc. - EVP and CFO*

All right. Thank you for coming everybody.
