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OVERVIEW:
Co. reported 1Q17 diluted EPS of $0.37. Expects 2017 total sales growth to be 3-4% and EPS to be $2.75-3.00.
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Blake W. Nordstrom Nordstrom, Inc. - Co-President and Director
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James A. Howell Nordstrom, Inc. - Principal EVP of Finance and Treasurer
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Trina Schurman

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

At this time, I will 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.
Participating in today’s call is Blake Nordstrom, Co-President, who will discuss the company’s first quarter performance and the outlook for fiscal year 2017. Joining during the Q&A session will be Pete and Erik Nordstrom, Co-Presidents; Jamie Nordstrom, President of Stores; and Jim Howell, Executive Vice President of Finance and Treasurer.

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

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

Good afternoon, everyone. Before we review our first quarter results, I’d like to provide some context about how our business has evolved and the direction we’re heading. Over the past decade, we’ve transitioned from being a predominantly mall-based store business to one that is more diversified, with multiple ways for customers to shop with us. During this time, we’ve invested in capabilities to better serve our customers and gain market share. This fueled our e-commerce growth, increased our customer base and enabled us to expand into new markets. Through these efforts, we’ve added nearly $6 billion to our top line.

In keeping our customers at the forefront of everything we do, our business looks very different today. Nearly 1/4 of our sales are from online purchases compared to roughly 5% from 10 years ago.

We’ve added more ways to serve customers through our acquisitions of Trunk Club and HauteLook. Nordstromrack.com and HauteLook are on track to be our fastest-growing business to reach $1 billion.

We offer a variety of services that support our customers’ needs around convenience, such as buy online pickup in store; curbside pickup; and same-day delivery.

We continue to invest in critical talent and capabilities around technology, mobile, data analytics and supply chain.

Our local market assets, our stores, salespeople, product and services, represent the core of our brand. We’re fortunate to have a high-quality portfolio of 122 full-line stores, with all of our comp stores generating positive cash flow. Furthermore, our stores play an important role in attracting and retaining customers. Nearly 80% of customers who shop with us across multiple channels began at our full-line or Rack stores.

We have strategically grown our off-price business, which represents roughly 30% of sales. It’s positioned as our largest source of new customers, with the average age skewing younger than our overall business. About 1/3 of customers who start shopping at the Rack will also cross-shop in our full-price business. We believe this is a unique, competitive advantage in the market.

Because our customers’ shopping experience may be influenced by multiple touch points, it’s important that we view our business from the perspective of the markets in which we serve them. We’re finding that measuring our outcomes through discrete channel metrics, such as store comps, are becoming less relevant. As we continue to head in this direction, we’re increasingly looking at our business as full-price and off-price, inclusive of stores and online, to better capture the synergies of having a physical and digital presence.

Now I’d like to discuss our first quarter results. Our earnings were in line with our expectations. We reported earnings per diluted share of $0.37, which included a onetime charge of $0.06 associated with the $650 million debt refinancing in the first quarter.

Last year, earnings per share of $0.26 included a $0.10 charge primarily related to higher credit charge-backs as we transitioned to a change in industry liability rules. When excluding these charges, our first quarter earnings increased 19% on a comparable basis.

While we’re pleased with our inventory and expense execution, we’re not satisfied with our top line results. Total sales increased 2.7% while comps decreased 0.8%. This was generally consistent with the trends we’ve experienced over the past year.
In our full-price business, total sales decreased 1.7% and comps decreased 2.8%. From a merchandise perspective, we had strength in our men’s and women’s apparel while accessories remained soft. Our expansion in full-price gross margin reflected the continued strength of our regular-price sales.

Our focus on expanding product with limited distribution helps us provide customers with the most sought-after brands while mitigating our business from the promotional environment. These efforts contributed to a 100 basis point increase in the mix of regular-price sales and our full-price business.

In our off-price business, total sales increased 8.7% and comps increased 2.3%. We took additional markdowns on slower-moving items, which impacted gross margins.

Overall, our gross profit rate was slightly up from last year. We ended the quarter with inventory growth in line with sales growth.

Moving to our 2017 outlook, our plan is grounded in the sales trends we’ve experienced over the past year. We are reiterating our earnings per share range of $2.75 to $3, total sales growth of 3% to 4% and approximately flat comps.

As we look ahead, we have a number of opportunities to drive growth. From a merchandising perspective, we continue to focus on providing customers with newness through a greater emphasis on limited distribution and relevant product.

Our long-term ambition is for continued double-digit online growth. We’ve been able to increase the speed and agility with which we roll out enhancements to our product pages, navigation and content.

Mobile is integral to the customers’ shopping experience and it accounts for more than half of our online traffic. We’re continually testing and rolling out new ways to connect the physical and digital experiences. As an example, we’re expanding Reserve Online and Try On In Stores from 6 to 50 stores this year.

This fall, we have our sixth full-line store opening in Canada at Sherway Gardens in Toronto and 2 full-line store relocations in California at Westfield Century City in Los Angeles and at University Towne Centre in La Jolla. We have opened 6 Racks so far in 2017 and have 11 more opening in the fall.

Additionally, we’re excited about our Manhattan flagship, which is on track to be completed in 2019. We recently announced a phased approach with the men’s store opening first in spring 2018.

Finally, I’d like to share that we’re looking forward to having Anne Bramman join our team as CFO on June 2. She brings extensive retail experience with demonstrated success as a business partner and a steward of capital. Anne is succeeding Mike Koppel, who retired at the beginning of this month. Over the past 16 years, Mike has provided insight to the leadership team into how we can best utilize the company’s resources to produce the outcomes we aspire to achieve. Our financial standing and overall reputation have been greatly enhanced by his leadership. I’d personally like to thank Mike for his many contributions.

I’ll now turn it over to Trina for Q&A.

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Trina Schurman

Thank you, Blake. (Operator Instructions) We will now move to the Q&A session.

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Questions and Answers

Operator

(Operator Instructions) Our first question comes from Matthew Boss with JP Morgan.

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

So my question is can you talk a little bit about the Rack? So total off-price comps in the quarter slowed to, I think, the worst trend in around 3 years. Was this the result of lower traffic? Any changes in competition? And then on the higher off-price markdowns, how much did this actually pressure the gross margin in the quarter?

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

Matthew, this is Blake. Let’s talk about our off-price business. In terms of the Rack, we had a 0.9% decrease. Our plans were to be flat. So we were really close to that. But to be clear, our plan is to beat that. Our goal is to be ahead of our plans. And so we recognize that we had some opportunities. There were a number of things that our team is working on, but there isn’t any one thing that I would call out. It’s not dissimilar to the performance we had in Q4 – we were down 0.8%. So we have seen a little bit of a softening, but it is close to our plan. And we are encouraged by the opportunities and initiatives we have for the balance of this year. In terms of the online off-price portion of it, it also just missed our plans. We’re anniversary-ing from a year ago the strongest numbers we had. We had a 42% increase a year ago in Q1 in online off-price. We had a 19% performance for Q1 of 2017, and that just missed our plan. And you’ll see, as the balance of the year goes on, much stronger numbers with our plan because we have a plan for the year that is stronger weighted towards the balance end of the year. In terms of your specifics have we’ve seen anything from competition or other factors, we don’t have anything material that we would point out, only that we recognize this falls short of our goals, and we’ve got work to do to improve upon that.

You had, I think, a question on the margin, too. Regarding Q1 margins, I did call out in my remarks that we took higher markdowns in our Rack business, predominantly due to some seasonal underperforming merchandise. We had some more boots and coats and other things that we felt necessitated some more markdowns. That had an impact to the overall. The overall margin was relatively flat. Full-price had an improvement in margin, with off-price bringing it down slightly.

Operator

Next is Mark Altschwager with Robert W. Baird & Co.


I wanted to ask on the SG&A side. Can you just give us a sense of where you’re having the most success bending the cost curve there? Any timing issues impacting the results this quarter? And just more broadly, how you’re thinking about your SG&A growth outlook for the remainder of the year?

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

Well this is Blake and I’ll start, and then I might have Jim weigh in if I miss some things. Again, we made some comments on both the slide, I believe, and then in my comments that technology was a little bit higher, but that was planned. That will level out throughout the year. So that had an impact from a timing point of view for Q1. There have been, throughout last year, a number of initiatives to get our SG&A in line with the business performance. We’ve been working really hard on that model. And we think that’s starting to bear some fruit, and that showed both in the Q3, Q4 and this earnings where we’re seeing improved SG&A expense management. So Jim, is there any other things that you’d call out?
James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

No.

Operator

Our next question comes from Ed Yruma with KeyBanc Capital Markets.

Edward James Yruma - KeyBanc Capital Markets Inc., Research Division - MD and Senior Equity Research Analyst

So with 23% of your business online, I know that you guys have kind of re-architected your investment in the full-price stores to focus on some of the higher-volume doors. I appreciate the comment you gave about the cash flow of all stores, but how do you think about the profitability of some of the lower-volume full-line stores? And how has that changed over time?

James F. Nordstrom - Nordstrom, Inc. - EVP and President of Stores

Yes. I'll take that. Ed, it's Jamie. Yes, I would say we've transitioned our practice of investing in remodels from historically, it was a pretty democratic approach, where after 10 or 12 years, we remodel the store kind of regardless of the volume level performance. And over the last couple of years, have transitioned to making more strategic investments in our highest-volume stores, those stores that we think play a bigger role in creating our brand. When it comes to our smaller-volume stores, yes, they do generate cash. As Blake said, all of our -- all our stores are cash flow positive, and we make money there. Obviously, if you do put a bunch of capital into it, that can change that picture. We think we've got a lot of opportunities in the middle, frankly. It's not so much the small selling stores. We think those will be fine. It's a lot of the stores in the middle that we have an opportunity to upgrade them. So we're looking at a lot of different alternatives. We're working with our partners on the real estate side. All the big mall developers out there that we're partners with are as motivated as we are to upgrade those stores. So we're starting to work on that, and we think we'll start to see some progress later this year.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes. Let me jump in. This is Erik. What I'd add to that is, increasingly, what's most appropriate for us is to look at the business just as one channel, which means, for store reinvestment, looking at the online impact that a store has and really viewing our stores as local assets that we can leverage. So as we get better data on the influences that go into customer behavior, that includes both digital experiences and physical store experiences, that better informs decisions, like how much capital to put into stores, as opposed to just looking at the 4-wall contribution of that 1 store.

Operator

Next is Adrienne Yih with Wolfe Research.

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

My question is on sort of the real estate backdrop and things that we're seeing. Can you talk about what you think the ideal footprint for both full-line and the Nordstrom Rack is perhaps in the next 3- to 5-year horizon? And then secondarily, it would seem that men's and women's apparel kind of leading the leading categories. I'm wondering if you could talk about the fashion backdrop and whether -- I know we don't talk about that much these days. But the fashion cycle is kind of in there in the background, and it seems to be heightening in early spring. Wonder if you could talk about merchandising there and where do you think that has legs to drive some of the business in the fall season?
James F. Nordstrom - Nordstrom, Inc. - EVP and President of Stores

Adrienne, it's Jamie. I'll take the first part around the stores. For full-line stores, we have roughly 120 stores today. It's a healthy fleet. And as Erik pointed out, we're really looking at how those stores help to drive our sales in every given market. While there may be opportunities to close underperforming stores, that's not really part of our strategy. We don't have a closure strategy. We have a market share strategy. So as we look at any given market, there might be an opportunity to move from a C location to an A location, as an example. There might be opportunities to look at the number of stores we have in a given market. But what we're not going to look at is just simply the 4-wall economics of that store. We're going to look at how good of a job we're doing using and leveraging those stores to drive the overall market sales. You want to take the last one?

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

You bet. This is Blake. And I just would add before I talk about the Rack, in addition to that footprint, I mentioned that we're opening in Sherway in Toronto. We've got 2 relocations. We've got Manhattan coming up, and there are 1 or 2 other tentative ones. We're not looking at other store locations within full-line stores outside of what Jamie said in terms of enhancing what we have or maybe a relocation. We think we have the right footprint to best serve the country. So we're pleased with our store locations. In terms of the Rack, we ended last year with 215 stores. We've talked about in the past that we could, over time, have approximately 300. I think the important thing there, too, is also the digital side of it. We ended last year with Nordstromrack.com and HauteLook with $700 million sales. I made reference in my comments that this is the fastest-growing part of our business in the history of this company moving towards $1 billion. So we're particularly excited from an off-price point of view of what's possible in digital, very similar to what's happening in full-price.

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

And this is Pete. I'll take the part about the fashion cycle. I think that the themes that are generally true across all classifications is that you -- there's a continuing turn around casualization that we need to be mindful of, really, kind of across the board and that we've had good success, I think, where we've focused on that appropriately. Newness is always a theme that we talk about. And for us to have our inventories in line and be able to bring new goods in always helps stimulate the business. Also, athletic and fitness-type brands, and that's kind of part of that casualization lifestyle part that we talked about a bit over the years. That's a strong trend. As I look at our top brands, it's interesting. We have several that are super healthy and growing double digits, and we have some big legacy brands we've done business with that are not; that are shrinking quite precipitously. So I guess, that's always been true to a degree. But the good news for us is that with how some of the brands are falling off, it creates open-to-buy for us. And so if you look at it from the buyer's point of view and our whole merchandising team, I think they feel pretty energized about the opportunity to go out and either apply more resources to some of these positive trends or find new brands. So it's -- I think, generally, our team feels -- maybe it's the nature of our business, but feels kind of optimistic about the future and our ability to be able to find great product.

Operator

Next is Paul Lejuez with Citi.

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

Can we go back to the gross margin line for a second? Just curiously on the merch margin specifically, what did full-price look like year-over-year just relative to itself? Same question for Rack. And I'm just curious if you can provide any more detail about what happened in 1Q at Rack. Was there any change in terms of the percentage of inventory that it was taking from full-price? Did that have any impact on anything? If you can add any color there, that would be great.
James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

Okay. This is Jim. On the margin side, I think you have to remember, last year, first quarter, sales were pretty tough and we were a little bit out of line with our inventories, and we talked about that last year. And so we did see improvement in the full-price margins just by virtue of the tougher comparison. I think the back half of this year will be more normalized because, if you recall, last year in the back half, we did a nice job, and we're still holding inventories pretty well. On the off-price side, I think Blake's comments covered it. I think there were some pockets of goods that we had to take markdowns on, but I don't know that there's anything that we're -- anything broader that we're seeing that concerns us.

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes. There's one other thing on the off-price, which I think speaks to the dynamic of how the multiple channels work together. So we've had such great growth in the online part of our off-price business. What the resulting action of that, kind of the unintended consequence, it creates more returns into a physical Rack store. Stuff that someone had bought online, customers often choose -- actually, most often choose to want to return that in store. So we've got more inventory back into the store than we had originally planned. And that's again because of the large growth that we've had there on the online part of the business in our off-price part of the segment. So we can adjust to that as it goes forward, but we're playing catch-up on that a little bit. And I think we understand, the further along that we get, how to anticipate those inventory conditions and so that we can do it more efficiently.

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

Right. Can you quantify the increase in full-price merch margin and the decrease in Rack?

James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

No, we don't go to that level of detail, but our expectations are unchanged for the year.

Operator

Next is Simeon Siegel with Nomura Instinet.

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

Can you share your view of where you'd expect the promotional levels across the channel to head going forward? Maybe any thoughts on the brand health and approach vendors are taking to their own inventories across channel? And then I know you talk about 1/3 of Rack customers that shop full-price. How large is the demographic differential between the non-overlapping shoppers? And would you expect that 1/3 number to grow over time as off-price continues to gain prominence?

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

It's Erik. I'll certainly take the first one. The promo level, we saw a reduction in promo level for us, which was mainly 2 factors. One is fewer promo events that we had to match. And the second being, of those events, more and more of the product we carry is on the exclusion lists of our competitors. So for us, that's a good thing. As far as the second question was the Rack customers that migrate over to full-price. We have -- a lot of that is for us opportunity there, is in data. As our models become more diverse, as off-price has become a bigger chunk of our business, as online becomes a bigger chunk of our business, we have more ways to serve the customer and gets us out of being a almost predominantly, as our history has been, a mall-based physical store model. And one of the great aspects of that is around customer acquisition and customer data. The Rack is a tremendous place for us to acquire customers. We're in very early innings of capturing the customer information and leveraging that to serve customers better. Our launch last year of our loyalty program to include noncardholders was a big step in the right direction, but we have a lot of
opportunity going forward to continue to leverage customer information better. And that migration that you bring up is one of the benefits we would see from that.

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

This is Pete. The only other thing I would add to that is the customers between the Rack and the full-price, they look very similar in terms of their household incomes and what have you. Where they tend to differ, at least of what you can quantify on paper, is they're younger. So that -- we work pretty hard to try to find a way that the off-price part -- what we do in the off-price complement each other. And you can see with the way that physically we're with stores. The most successful Racks are ones that are right next to a full-price store. So there is some synergy that goes with that. It doesn't necessarily cannibalize. There is share. There is acquisition that happens. But again, generally, there's some younger people that enter our brand through the Rack and that they end up migrating up to full-price over time. It's a good thing.

Operator

Next is Erinn Murphy with Piper Jaffray.

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

I guess my question is on the retail EBIT dollar guidance, the range of $780 million to $840 million. Could you just talk about what's assumed from a comp perspective at the high-end versus the low end of that range? And then just staying with EBIT dollar trends, I know last quarter, you talked about brick-and-mortar margins sitting below that of e-comm margin. Is that relationship still true in this quarter? And then longer term, how do you think about working to improve the brick-and-mortar margin should we stay in this kind of sluggish offline environment?

James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

So this is Jim. I'll take the first. I think from a sales perspective, we guided flat comps for the year, total sales increase of 3% to 4%. And so I think this -- I think from how that plays out in terms of retail EBIT, we're right where we would expect to be in that zone. So really no -- nothing to really talk about there. I think in terms of the -- what you're seeing with the brick-and-mortar margins versus the online margins, I think Mike talked about it a little bit last quarter is you've got a high fixed-cost business where sales are decelerating and then you've got a high variable cost business where sales are accelerating. And so we're still dealing with that phenomenon as more sales are shifting to online. And so that would play out with EBIT margins as well. I don't think anything has changed in the first quarter from where we were or where we expected to be.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes. I would just add, again, going forward, we split out for these reporting reasons to our online and store business, but we really don't use it much internally because it's -- increasingly, the unlocks in our model is from -- by looking across our businesses and looking at the business as -- through our 2 brands. So we have the Nordstrom brand. We have the Nordstrom Rack brand. So you think about things like filling the top of the funnel, how do we get more engagement with our brand. That could be a marketing lens through our online business of, say, affiliates or banner ads or search words. But it could also be our sales people in our stores, getting them engaged with our digital tools we have. And we need to look at those levers equally and not miss opportunities by putting our businesses in silos.

Operator

Our next question comes from Brian Tunick with Royal Bank of Canada.
Brian Jay Tunick - RBC Capital Markets, LLC, Research Division - MD

I guess 2 questions on the tech side. I guess, one, on the tech spending you've done the last couple of years, can you maybe talk about some of the e-comm functionality that you've added in the more recent time that you think could be the most impactful on the business? And then secondarily, as you guys are already investors in Bonobos, I was just curious. It sounds like Walmart is going to buy them. So I was curious on your growth initiatives between Trunk Club or HauteLook, are you guys out of the market to look for additional e-commerce acquisition vehicles?

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

This is Erik. I'll take that, and you can chime in on the second one in particular. But our e-commerce functionality, for the first quarter -- in general, I think you've heard us talk about it for a while now, we've had to address the underlying architecture to our website and modernized that. And that's -- different parts of our website have come online, is being modernized at different times. We're about 80% modernized right now of our websites. We're not all the way there. But as we're able to modernize portions of our site, we're able to greatly, greatly enhance the speed with which we're able to roll out functionality and features to our customers. In the last quarter, both our homepage and content pages became fully modernized, and we did -- we were able to do a lot A/B testing on all sorts of features there. We had a number of enhancements in search and browse. We are right now in the process of launching a new my account feature, which is a significant enhancement that's very visible with customers. That really allows customers to get a much cleaner, quicker view of their order history. And the other part that I would -- I'd really call out that we're in the early innings of, but we did make measurable progress, is in our site performance, and that's not as sexy as a subject I'd like to talk about as customer features. But just the speed with which our site performs, has improved measurably over the last quarter, and we are seeing measurable improvements in both conversion and sales from that.

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

The last part of your question, you referenced Bonobos and the industry discussion that Walmart's been speaking with them and made -- have a transaction with them. Your question was geared in towards our strategy of the investments that we may or may not make. Our strategy is based in the customer and trying to provide the capabilities and functionality the customer expects from us and whether we can do that within our own team and resources; or it's helpful to partner with someone; or in some isolated cases, it might warrant an acquisition. We're really sensitive of how we deploy the shareholders' capital along those lines. We're not predominantly very acquisitive, but we have done some things over the years and some partnerships that have been really helpful to improve that customer experience. We have had an investment with Bonobos, and we sell their product as well. And it sounds like there's some -- maybe some exciting opportunities for them, and we'll see how that plays out.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes. I would just on the Bonobos, we've we'd -- some of our folks have had good relationships with the Jet.com folks and have been in communication with them since that acquisition got announced. And we've -- Bonobos' experience has been a good one for us. So what we're hearing is Jet.com bought them, not Walmart, and they're looking to keep those brands. So -- but right now, we don't see any change in our Bonobos relationship. And in general, I think there's an overarching trend for us of needing to be more externally aware and looking for more strategic partnerships, just as you've seen in all the limited distribution product that we've carried. We're -- our world's changing fast, and so we're curious to what's going on and to how other companies are approaching the retail challenges. And if there's something to be learned out there and something that can help our business by partnering up, we're willing to do that.

Operator

Next is Paul Trussell with Deutsche Bank.
Paul Elliott Trussell - Deutsche Bank AG, Research Division - Research Analyst

The name of your press release was that the first quarter was in line with expectations. I just wanted to circle back to the P&L and get your gauge. Was that inclusive specifically of the overall consolidated comps were in line with your view as well as gross margins? And then also, just to follow up on that, you have added some commentary to the guidance for considerations, and you specifically outlined that there are increased occupancy expenses along with higher fulfillment and technology costs. Can you just elaborate on how we should be thinking about that impact to the P&L?

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

Paul, this is Blake. What we were trying to convey in that release is that the earnings were in line with our expectations, but the top line wasn’t. And I tried to make that clear in my comments as well, so I want to be really clear about that. So we fell short of our expectations from the top line. It was very consistent with the trend we had last year, so we continue to deal with -- in a business like way --that. But we are making good progress with the bottom line results in the financial model, and there’s more to do. And we’re encouraged by that. We have a lot of initiatives that give us kind of cautious optimism for the balance of this year. And again, we try to be clear that there’s no change in our annual guidance. Some of the reporting that you referred to is we’re just trying to give some clarity about the nuances for the year and the quarter because we don’t give quarterly guidance, and that was the thought behind that.

Operator

Next is Kimberly Greenberger with Morgan Stanley.

Kimberly Conroy Greenberger - Morgan Stanley, Research Division - MD

Blake, I wanted to ask a couple of questions on categories. We heard from one of your peers today that the margins in the cosmetics business are under a little bit of pressure. I’m wondering if you’re seeing either any pressure on sales in the category or margins in that category? And then if you could comment on handbags, how they performed in the quarter and shoes as well, that would be very helpful.

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

This is Pete. I will take those questions. With regards to the beauty business, it’s not dissimilar from what I mentioned earlier. We have some brands that have grown extremely well, but we also have some large legacy-type brands that have been off for us. But where we’ve had -- our best success in beauty is in the limited distribution brands, the more prestige kinds of brands, we’ve had big growth there. And it’s given us a lot of confidence on how we can invest going forward. With regards to the gross margin specifically, we don’t really have anything to report about that. There’s nothing demonstrative that we can think of there. Then you want to know about handbags, how they performed in the quarter and shoes as well, that would be very helpful.

Kimberly Conroy Greenberger - Morgan Stanley, Research Division - MD

Yes, that’s correct. Yes.

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

So handbags, the strongest part of our handbag business, and this has been going on for a while, is the designer part. That has continued to be very healthy. There are some large brands again that participate in a lower price point than designer that have been big businesses that have been challenged. And so we’re -- it’s created some open-to-buy for us to try some new things. So we’ve got some catch-up to play there. So in total on handbags, including everything, it’s down more than the average of everything else we’re doing. Shoes, that’s a big business for us. So we’d have to go speak to something pretty specific. Generally, again, the designer part of our shoe business has been strong. The part that’s been the weakest for us is our BP shoe department in women’s, which generally represents more of an entry kind of price point, typically a bit younger and more
casual in styling. We've got to dig into that a little bit more and find out. I don't think that's necessarily reflective exactly of what's going on in the industry because you already heard me say earlier that things like athletic and casualization has done well. So I think that really mostly on us is stuff that we can fix and solve for, so that doesn't seem to be a secular issue that we can't solve for. But generally, our shoe business continues to be very healthy.

Operator

Next is Lorraine Hutchinson with Bank of America.

Lorraine Corrine Maikis Hutchinson - BofA Merrill Lynch, Research Division - MD in Equity Research and Consumer Sector Head in Equity Research

It sounds like you're making a lot of progress on the exclusive product mix. Can you share any metrics around the percentage of product that is exclusive to you and also, maybe trends in customer price matching?

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes, this is Pete. We don't really measure it so much in terms of the exact percentage of business that we have. It's a little bit difficult to do that. And it's -- yes, so I don't -- we don't have that number. I can tell you that it's growing though. We've been able to identify opportunities with a lot of vendors that are angst to try to grow a full-price business, and I think they like our capabilities in terms of the omnichannel that we present to them. So increasingly, we have more kind of limited distribution product with important vendors, so that's working well. I'm sorry, what's the second part of your question?

Lorraine Corrine Maikis Hutchinson - BofA Merrill Lynch, Research Division - MD in Equity Research and Consumer Sector Head in Equity Research

Any trends in customer price matching? Are you seeing that come down as the industry gets a little less promotional?

Peter E. Nordstrom - Nordstrom, Inc. - Co-President and Director

Yes, it's a little less promotional. But the part that is -- I think that we should be aware of, it's a little misleading that we don't quantify quite as much is just because they’ve moved from a literal markdown of everything, some of our competitors do a "buy more, save more" program. While that's something we don't match, when those things are going on, it impacts our business and more online than it does in the store, as that customer's kind of searching through based on price on the comfort of their home or on the phone or what have you. That will be a determining factor on how they buy things. So there still is a promotional environment out there. It's just how it's done exactly has changed a little bit. And again, we don't compete as directly with that, but we do feel some of the ill effects of it.

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

And, Pete, you've talked about how, again, this more limited distribution is outside of some of that more promotional environment. So the actual cadence of the promotional environment of our competition might still be the same, but the content of the inventory is evolving and changing and creating less exposure for us. And we think it's reflective in the full-price business improving as well.

Operator

Next is Oliver Chen from Cowen and Company.
Oliver Chen - Cowen and Company, LLC, Research Division - MD and Senior Equity Research Analyst

You've been real leaders in the customer centricity. And the question I have is as customers expect so much, what do you think about the overall margin profile of the business and the need to materially step margins down just as you see the variable costs rise and also, as you look across at competitors who function in a very different margin structure? And it just feels like the speed to which customers expect product and the convenience factors will continue to pressure the need for you to address what consumers need. So I'm curious about the multiyear perspective on that since you are at the cutting edge with a lot of programs that you're implementing. And then I didn't know if I understood, so your lowest productivity full-line stores, like should those be closed? Or how are you -- do you feel like they're brand appropriate even though they're 4-wall profitable?

Erik B. Nordstrom - Nordstrom, Inc. - Co-President and Director

This is Erik. In terms of the margin impacts of more speed and convenience, there is a whole list of win-win initiatives for us, wins for the customer that are also wins for our business. And you said we’re on the cutting edge. I don’t know about that. What we focus on is what are the assets we have that we can bring to bear to serve customers better. And one of the assets we obviously have is kind of 122 full-line stores to take care of our Nordstrom customers. And specifically, it’s a place customers can go. It’s also got people in there that can do things to serve customers better, and there’s inventory. We’ve got a lot of inventory that’s sitting out close to customers. So things like buy online and pick up in store is a great service. We have that in all our stores. It’s growing about 50% year-over-year. And all our stores also have curbside pickup, if customers want it. That’s something that’s a huge win for customers. It’s also a win for us, for a customer to come in and pick up in the store. So we’re focused on what are the assets we can have. Before we get into the -- kind of the race to the bottom of what are the things that just cost more, there is some of that but where we see an enormous amount of opportunity to do things that bolster the customer better and serve our business better.

James F. Nordstrom - Nordstrom, Inc. - EVP and President of Stores

Oliver, I’ll take the second one. In terms of our smaller stores, when we look at those stores, I think we have to ask ourselves, how do we feel about that store if we have to make a big investment in it. And given the amount of sales that those stores drive in a given market, the answers are different. If it’s a store that’s the only store in a market, we have very measurable online sales that those stores drive. And so we’d look at that. It might be the fifth or sixth store in a market, and that will give us a different answer. And if you look at what we’ve done over the last few years, where we have closed a number of stores that might have been the fifth or sixth store in that market and where we’ve invested in the better locations in that market, we’d rather the customer shop there. So I understand the spirit of the question, and we look at that a lot. We think there will be some opportunities over time but we really want to look at holistically with how we’re serving customers in a given market, the role that those stores play, the role that online plays and how we can best serve them long term, and that will drive our decisions around our store fleet.

Operator

Our last question comes from Michael Binetti with UBS.

Michael Binetti - UBS Investment Bank, Research Division - MD and Senior Analyst

Just a quick one on the model really quickly. The other revenue line slowed quite a bit in the quarter. I was wondering if you could just point us to what was moving in that. And I know it’s a small revenue line, but it was a little bit of a different move than we thought.

James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

Yes, just in terms of -- yes, you’re talking about in the table towards the back of the earnings release?
Michael Binetti - UBS Investment Bank, Research Division - MD and Senior Analyst

The $126 million in the other line, I think, clearly includes Trunk Club and Canada, yes.

James A. Howell - Nordstrom, Inc. - Principal EVP of Finance and Treasurer

Yes, that's Trunk Club and Canada. And I would just -- I don't think there's anything unusual there from our expectations again. Everything was pretty much as we expect, and there's nothing in that line I would point out.

Michael Binetti - UBS Investment Bank, Research Division - MD and Senior Analyst

Okay. You mentioned the sales were maybe a little bit off from what you thought, but you didn't say your expectation at this point is that Rack comps can accelerate through the year. Maybe just a little bit more color there. I wanted to -- obviously, there's a little bit of noise in there with some more promotions and lower sales. But what -- is there something you're tweaking? Or would you tell me just go do some math on why the Rack comps will accelerate? Or is there something strategically you're tweaking or an inventory opportunity that led to that comment?

Blake W. Nordstrom - Nordstrom, Inc. - Co-President and Director

This is Blake. In all of our businesses, we've got a number of initiatives that we're working on, and there's -- they're rolling out throughout the year. I would tell you that we planned the Rack business for the trends that's been the last, let's say, 18 months, and that's approximately flat in the comps in the stores. For Q1, we missed it by 0.9%. We're confident that we can get back on top of that, meet that plan and hopefully exceed it for the balance of the year. So we think we have grounded plans in trend. It will enable us to be more agile and flexible to move forward as the business responds. What's happened in years past is that we tend to get optimistic that tomorrow's going to be better and we get over our skis on expense or inventory and it doesn't allow us to be fluid and react to the business. So as Pete said, the whole subject about newness and the reason why the customer should buy something new really gets grounded in our merchants' ability to be able to keep everything very open and fluid. And so we have that with the Rack. Our inventories are in line. I think we have some good initiatives this year. But we look at the Rack not just -- and it's been said throughout this call, from the bricks-and-mortar point of view, we look at it as an off-price business with -- and our -- the Nordstromrack.com and HauteLook. And when you put that together, we think we're gaining market share, and we have facts that show that. But we're falling short of our plan. So we're trying to be clear with all of you on this call that we're not satisfied with these top line numbers, and we're working hard on that. And we believe that we can make some progress on that, and we have to show you that through the facts each quarter as the year plays out.

Michael Binetti - UBS Investment Bank, Research Division - MD and Senior Analyst

Okay. I have one last one. Let me just ask one last one, if that's okay? So the full-line store is down 6.4% on the comp. As we -- we sat here today and listened to some traffic numbers from some of your competitors that are -- that have a lot more exposure in B and C malls that are -- that the traffic levels are obviously fairly sobering across the space right now. But we've always looked at you guys and your full-line stores as a proxy for the A malls more across the country. And some of the numbers that we see come by through external data sources through the quarter suggest the traffic shouldn't be quite as bad in the A malls. And I wanted to just get your thoughts on how -- I know you guys don't speak about ASPs or AURs but -- in a month. But what do you think you need in the full-price stores, at this point, to say we can really get -- we can make a shot at getting these traffic numbers up in these stores, if maybe there's some AUR pressure that continues in the industry?

James F. Nordstrom - Nordstrom, Inc. - EVP and President of Stores

Sure. This is Jamie. We look at -- we don't have great traffic numbers. We see a lot of the same numbers that you do. We look at transactions as a proxy for traffic, and it's been down. And the trends around that have been really consistent for the last year plus. And so we do think that there are less visits to the mall. But what we see, though, is that a lot of those visits are now going to our website. People shop for things lots of different ways, depending on what their needs happen to be that day. Some of those trips in the past have converted to trips to Nordstrom.com, and we're
thrilled about that. And so it’s our job to continue to focus on investing in our business and the experiences we can provide customers across all the channels to make for a great shopping experience. And if that means they replace what used to be a trip to the mall with a trip to our website, it’s our job to serve them well. And our entire team is focused on doing that over time.

Trina Schurman

Again, 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. Thank you for your participation.