**Q3 2018 EARNINGS CALL – PREPARED REMARKS**

**BLAKE NORDSTROM**

Good afternoon everyone and thank you for joining us today. We're focused on our aspiration to be the best fashion retailer in a digital world through our three strategic pillars:

- one, providing a compelling product offering,
- two, delivering exceptional services and experiences, and
- three, leveraging the strength of our Nordstrom brand.

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For the third quarter, we achieved total sales growth of 3 percent and a comp sales increase of 2.3 percent. This demonstrated ongoing strength in our Full-Price and Off-Price businesses. Our early investments in our digital capabilities are paying off. The combination of our digital capabilities and local market assets have enabled us to be at the forefront of serving customers on their terms.

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Last month, we celebrated the 20th anniversary of Nordstrom.com. This business has grown to roughly two and a half million visitors per day, ranking among the top 10 e-commerce retailers in the United States. Year-to-date, overall digital sales grew 20 percent and made up 30 percent of our business.

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Before I provide an update on our key initiatives, I'd like to address the estimated earnings per share charge of $0.28 taken in the third quarter. In a recent review of credit card accounts, we identified some cardholders with delinquent accounts being charged higher interest in error. We estimate that less than 4 percent of Nordstrom cardholders will receive a refund or credit, with most receiving less than $100. We have taken action, including the appropriate steps to ensure the problem is addressed and does not happen again. We sincerely apologize to these cardholders. We realize customers and shareholders place a great deal of trust in us, and that's a responsibility we take seriously. Excluding this charge, our third quarter earnings were slightly ahead of our expectations, and Anne will provide further details of this matter in her remarks.

Looking ahead, we're scaling generational investments in our digital businesses and new markets.

- Nordstromrack.com and HauteLook are on track to exceed $1 billion in sales this year.
- Trunk Club has delivered sales growth of nearly 50 percent year-to-date, demonstrating successful efforts to improve the customer offer.
- We continued our expansion into Canada with three additional Racks in Toronto, Edmonton and Ottawa. Our six Rack stores opened to-date are performing ahead of our expectations. We expect further synergies from having a full-price and off-price presence in this market.
- Last spring, we took our first step in serving customers in Manhattan with our men's store. We're building on our initial learnings as we focus on expanding our presence in this premiere retail market with our flagship women's store operning, planned in Fall 2019.

Our strategy in our local markets is another cornerstone of how we will win with customers and drive increased shareholder value. Through our focus on our top markets, we are leveraging our inventory, along with our digital and store capabilities, to serve customers in new and relevant ways. We're on track with our roll out, beginning in Los Angeles, our largest market. We believe that when executed at scale, we can better serve customers, driving market share gains, engagement, and improved profitability.

Last month, we introduced "Get it Fast," a new feature that gives customers a significantly expanded view of merchandise selection that's available next day in the Los Angeles market. Since the launch, we have seen a 50 percent lift in Buy Online & Pick Up in Store. This is a great example of how we're leveraging our digital and physical capabilities to increase convenience for our customers.

Enabled by our supply chain investments, we have potential to increase selection by 4 to 7 times for product available same or next day in a given market. To support customers on the West Coast, we recently announced plans to open a new fulfillment center and a local omni-channel hub next year. These facilities should increase inventory efficiencies, and more importantly, they should significantly improve the customer experience by getting product to them faster.

Nordstrom Local, which are small neighborhood hubs, provide customers with more convenient access to our services. A year ago, we opened our first Nordstrom Local in West Hollywood. Encouraged by our initial results, we recently introduced two additional locations, in Brentwood and downtown Los Angeles.

In addition to service and convenience, providing newness is an integral part of our merchandising efforts. Our strategic brand partnerships enable us to offer compelling products to customers and strengthen our product margin. In the third quarter, our strategic brands made up roughly 45 percent of our Full-Price sales.

Our partnerships with influencers are an important way we're creating inspiration and a sense of discovery for customers. Following a successful launch last fall, we partnered with Arielle Charnas to introduce a new standalone brand Something Navy. Additionally, we launched a collaboration between Atlantic-Pacific and our private label brand, Halogen. Both product launches outperformed our expectations.

We're also leveraging the Nordstrom brand to drive increased customer engagement. We know that when customers engage with us across various touchpoints, both their trips and spend increase. Our robust loyalty program gives us the opportunity to serve customers in a more personalized way. We have more than 11 million loyalty customers contributing 56 percent of year-to-date sales, an increase of roughly 15 percent over last year.

Last month, we launched The Nordy Club, an evolution of our loyalty program that offers enhanced services and experiences and a faster earn rate for credit card members. While it's still early, we're encouraged by the uptick in enrollment trends. We look forward to building on the connections our customers have with our brand through The Nordy Club.

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As we head into the fourth quarter, we're focused on establishing Nordstrom as the gift-giving destination and making it more convenient to shop. We're well-positioned to improve the customer experience and believe our combination of digital capabilities and local market assets -- our people, product, and place -- make us uniquely positioned for success in the market. I'll now turn it over to Anne to provide additional insights into our results.

**Q3 2018 EARNINGS CONFERENCE CALL – PREPARED REMARKS**

**ANNE BRAMMAN**

Thanks, Blake. Before I discuss the drivers of our third quarter performance, I'd like to provide additional color on the non-recurring charge. As Blake mentioned, in a recent review of credit card accounts, we identified some cardholders with delinquent accounts being charged higher interest in error. This occurred as a result of settings implemented in 2010. We estimate that less than 4 percent of Nordstrom cardholders will receive a refund or credit, with most receiving less than $100. We are currently assessing the impact to each individual account and will communicate directly with impacted cardholders. We estimated non-recurring costs of $72 million, or $0.28 in EPS, primarily representing refunds and other fees, which were recorded in SG&A in the third quarter.

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Excluding this charge, we expect to achieve an inflection point for profitable growth this year. We're focused on three key deliverables to increase shareholder returns:

- continuing market share gains,
- improving profitability and returns,
- and maintaining disciplined capital allocation

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Starting with our first deliverable -- continuing market share gains. Our third quarter reflected consistent underlying sales trends. As you may recall, we noted timing considerations that impact year-over-year comparisons, including the new revenue recognition standard and event shifts resulting from last year's 53-week calendar.

We reported third quarter total sales growth of 3 percent, which included an unfavorable timing impact of roughly 100 basis points from Q2. As a reminder, this primarily represented in-transit sales that were recognized at shipment under the new revenue accounting standard, rather than deferred. At the end of the second quarter, there was an elevated impact due to the high volume of online Anniversary sales.

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Given these timing considerations, we're continuing to provide color on comparable sales, which are aligned with the 53-week calendar in 2017. In Full-Price, underlying trends were consistent and in-line with our expectations. This reflected ongoing strength of strategic brands which grew 8 percent over last year. The Full-Price comp increase of 0.4 percent was impacted by planned Anniversary returns from last quarter. To normalize for this, Q2 and Q3 combined Full-Price comps increased by 2.5 percent, compared to flat comp growth last year.

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We're pleased with the momentum in our Off-Price business, which delivered a comp sales gain of 5.8 percent and exceeded our expectations across all merchandise divisions. This reflected our focused efforts throughout the year to accelerate inventory turns and strengthen our merchandise assortment.

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Moving to our second key deliverable of improving profitability and returns, generational investments are continuing to scale. These investments contributed approximately half of our year-to-date net sales increase. We're tracking against our expectations for 2018, which we shared at the beginning of the year. Generational investments are expected to deliver $1.8 billion in sales and achieve our EBIT plan.

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Our strength in product margin is another driver of long-term profitable growth. For the year, we remain on track for product margins to be flat or slightly up. Third quarter gross profit decreased 137 basis points from last year. This was primarily due to timing, including Q2's revenue recognition impact of $30 million, in addition to Off-Price mix. Year-to-date, our gross profit rate decreased 19 basis points, consistent with our expectations. This reflected flat product margins and occupancy rate, offset by the mix from Off-Price growth.

Ending inventory increased 7 percent over last year primarily due to timing associated with holiday. We pulled forward receipts to set holiday product earlier as part of our strategy. In addition, we had higher inventories in-transit due to the end of the quarter shifting one week closer to holiday relative to last year. Excluding this timing impact, Q3 inventory growth approximated sales growth. We expect to end the year with inventories in-line with sales growth.

Excluding the non-recurring charge, our SG&A rate was generally flat to last year. This reflected ongoing progress in bending the curve in expense growth. Our digital capabilities in marketing, technology, and supply chain are critical enablers of the customer experience. Through productivity improvements, we expect to moderate expense growth for our digital capabilities to mid-single-digits this year, compared with 10 percent annual growth over the last couple of years. Excluding the non-recurring charge, our overall SG&A grew 6 percent year-to-date, on track for mid-single-digit growth for the year.

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Our third key deliverable is maintaining disciplined capital allocation. Our long-term philosophy is to have a consistent and balanced approach between reinvesting in the business and returning cash to shareholders, while maintaining an investment grade credit rating. Year-to-date, we generated operating cash flow of approximately $640 million and free cash flow of around $250 million. In August, our board authorized a $1.5 billion share repurchase program, and we repurchased $70 million in the third quarter.

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Turning to our full year expectations, we updated our annual EPS outlook to incorporate third quarter results, raising the low end of our range by 5 cents, when excluding the non-recurring charge.

From a top-line perspective, we are assuming a continuation of underlying trends with a comp increase of approximately 2 percent for the year, compared with our prior outlook of 1.5 to 2 percent.

As a reminder, for the fourth quarter, we expect leverage on occupancy expenses as a result of fewer Rack store openings. We will also lap a one-time employee investment of $16 million associated with last year's tax reform.

To wrap up, we expect to achieve an inflection point for profitable growth this year, when excluding the non-recurring charge. We remain focused on strengthening our product margins, scaling our generational investments, and improving our expense efficiencies. We are well-positioned to execute against our long-term plans and deliver a differentiated customer experience. I'll now turn it over to Trina for Q&A.

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