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PRESENTATION

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Good morning, everyone. Thank you for joining (inaudible), can you guys hear me? No? Is my mic working?

Hello. I think we're going to have to get some technical assistance. We will be right back. (technical difficulty)

Okay. Excellent. Thank you. Good morning, everyone, and thank you for joining us for our next session of the Goldman Sachs Global Retailing Conference. My name is Brooke Roach, and I cover the apparel and accessories brand sector here at Goldman. I am very pleased to introduce our next session with Nordstrom. Here, joining me today is Erik Nordstrom, CEO; and Anne Bramman, CFO. Welcome.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Great. Thank you, Brooke.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

We're going to kick it off with a few opening remarks from Erik and before that, a safe harbor statement from Anne.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. Thanks. So thanks for joining us, and we're delighted to be here. I just want to let you know we will have some forward-looking statements in our conversation today and just refer you to our Investor Relations website for our safe harbor language. So that, Erik, I'll kick it over to you.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. If I'd start off just old context coming off of our last quarter and our earnings release. First story out of the quarter, really solid quarter. Sales growth, improved profitability, continued progress on our strategic goals. Touching on our 2 banners, in the Nordstrom banner, a real strong top line, 15% growth. We continue to see real strength in occasion-based categories, which are very strong for us.

And really, our core categories, women's apparel, men's apparel, shoes, beauty, designer, all had double-digit increases in the Nordstrom banner. So continue to see a lot of strength to the customer there.

In the Rack banner, we've had the third quarter in a row of improved top line versus pre-pandemic. And I'd say we're still in the early innings of getting our inventory balance what we want to be. And what I mean by that is we know really what customers think of Nordstrom Rack, the most for is great brands at great prices. And access to those premium brands was challenged during the pandemic, getting better. Our assortment there is getting better. We still have a ways to go there, but encouraging results for us, in our top 100 brands in Rack banner had a 17% increase over Q2. So we're seeing pockets of strength there to build upon.

We did see customer pullback starting in -- towards the end of June and really more compartmentalized than usual, very much so in for us, our lower income customer segments, we did see a fairly significant pullback there. I'd say related is a softness in our clearance business.

It's been more difficult to clear out old products, it's taking more markdowns to do that. So the result of that is we reset our plans for the second half to reflect those trends and the need to get our inventories better balanced and clear through some of that inventory. But importantly, I think I'm sure we'll get into this, there's still real strength.

And as goes in retail, there's always parts of the inventory that are less productive than other parts of the inventory, and we're always chasing that. That's more pronounced than normal. So we see opportunities to -- by addressing that less productive part of inventory and the necessary markdowns to do that to really fuel those parts of the business where we're seeing strength.

QUESTIONS AND ANSWERS

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. Thank you so much for those introductory comments. Maybe to kick it off at a high level, Erik, how is the inflationary macro backdrop driving any pivot to the Closer to You strategy, if at all?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Well, Closer to You is, we're a couple of years into that, and we continue to see real strength. And in short, we're trying to leverage the assets we have, the digital assets, the physical assets to better serve customers, bring them more choices, more way of getting product and more ways of servicing them and really on their terms. And we see a lot of benefits from that. When we can engage customers, the more we can engage them, as you can guess, the better.

When we can engage customers across the Nordstrom banner, the Rack banner, online and in-store, across those 4 areas, customer spend goes up 12x. So those capabilities became more important. I think accelerated during the pandemic, and we continue to see a real strong customer reaction to things like BOPUS, buy online pick up in-store is really resonating with customers, a lot of growth there. It happens to be our most profitable channel to sell things.

So to your point on inflation, we're not seeing any pullback from upper income segment of customers and desire for newness and higher AUR product. We are seeing some softness on the lower end. So mainly, we're looking to kind of approach these uncertain times, and there's a lot of uncertainty as we look ahead. By giving ourselves flexibility in our inventory levels and our expense base, so we can adjust to what the customers are really responding to.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

So you pivot that to the current environment. You've given us a couple of comments on that so far, but how would you characterize the health of the consumer today? And are there any shifts in the consumer that you're seeing as you navigate back-to-school?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. Back-to-school isn't a particularly huge moment for us. Really, what we're seeing is, again, some softness at lower income segments, softness in clearance and real strength in newness, strength in occasion based, strength in our core categories. As I mentioned, we're continuing to see double-digit increases, strength in higher AURs, higher priced product continues to perform really well. So there is customer behavior change, but it really seems compartmentalized.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. And you talked about the category trends of newness and occasion were working very well. Can you talk to us a little bit about how you think about that into 2023? How strong can these categories be? And for how long? How will you comp the comps on these?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Well, we had a particularly strong Q1. And our plans do not contemplate that those trends continuing because there was, I think, a particular resurgence of people getting out and having to replenish their wardrobes. I'm seeing some suits working out there. We didn't sell a lot of that during the pandemic, and so there's a lot of refreshing because people got out just to things like this.

So it's been consistent with our plans that, that wouldn't stay at that really elevated level. But there's still strength, again, in our core categories. And we're not a price promotional retailer. We're not a retailer that relies on the 1-day sales, the friends and family sales, those types of things. What drives our business is newness.

And in particular, newness in categories that people care more about how they dress. That could be an occasion like a wedding. It could be going back to the office. It could just be going out to dinner. And so we continue to see strength in more people returning to the office, more people getting out in travel, more events going on. And those go to really where our strong categories are, and we continue to see opportunity there.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That's great to hear. Inventories have been such a key focal area for investors right now. And on the call, you talked about some of the actions that you're taking to rightsize your inventory levels. Can you talk to this in more detail? And when is the timeline for you to be appropriately rightsized and clean?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So for us, when we took a look at what was going on in the second half of the year, we look at the macro environment and the landscape, and there's just a lot of inventory out in the marketplace right now. And as Erik mentioned, we're not a big price promotional retailer. Having said that, we were seeing some softness in clearance. It's taking a lot deeper marks to get through our normal clearance cycle.

And so we took a look at the second half when we set the plans and said, okay, we think it's going to be promotional there. We think it -- looking at the inventory, it's going to be a lot out there. We -- and we wanted to get our assortment correct. And so we took a view that it's going to take a couple of quarters to get through it. We felt like it's split pretty evenly between the third quarter and the fourth quarter.

And I would characterize the third quarter is getting through what we see some of our private label, we talked about, have been a bit of a headwind for us coming out of Anniversary Sale, our iconic Anniversary Sale. And we have seen some of the things that's trying to get through, making sure we're getting more space to the premium brands in the Rack product because we're seeing that growing 17% when we're putting the premium brands in Rack.

But having said that, we also said we think it's going to continue to be promotional in the fourth quarter, and we just want to be thoughtful and give ourselves some agility as we went through the second half. So we didn't feel like it was going to be a one and done. But we also are trying to be very appropriate and approach this as we think about what's going to happen around us as well as what we want to do to make sure that we're entering '23 as absolutely clean as possible to provide that agility.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That's super helpful. One of the questions we're asking just about everyone at our conference is how they're managing some of those inventories and promotions. You commented about the promotional markdown clearance just a moment ago. How does that markdown rate for Nordstrom in the second half compare to 2019 levels? And then into 2023, if you are clean in the industry looks a little clean, what's your outlook for promos versus '19 then?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. I would just characterize it, in general, we think the second half is going to be very promotional compared to '19. And '19 was pretty promotional in Q4 in the industry, but we just feel like it's going to be -- when you look at inventory balances exiting out of Q2 across the industry, it's -- they're very high coming out. Ours is actually in line when you think about our sales to inventory ratios but we're just looking across and saying it's going to be pretty competitive out there.

I think of all going out into '23, we're not giving guidance for '23, I don't think anyone's giving guidance, but I think it'd be rational to believe that in '23, you can see us getting back to '19 levels.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Let's pivot to the Rack. This has been something that you've been strategically focused on and also one of the areas where the consumer is seeing a little bit more pressure, you've also been making some adjustments to that merchandise in the second half. Can you discuss the actions that you're focused on both near term and in the medium term to improve the performance?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. Really the -- of the North Star for the Rack business, great brands at great prices, and that access to those brands is super important. And as I mentioned, that is improving. But there is a rhythm to that business, and we've been in that off-price business for a number of decades now, that requires a lot of agility and attention on it. We felt we -- early in the year that we needed more dedicated resources on our Rack business.

We recently doubled, more than doubled the amount of Rack-specific buyers that we had on the business. And when you think about our off-price business, merchandise offer lives, we're trying to do 2 things that we think we're uniquely positioned to do. We're certainly looking to be opportunistic and have great off-price product that any off-price retailer would have.

But the second piece is, importantly, we're looking to leverage our relationships with -- in our Nordstrom banner business for off-price access to off-price product. Over 90% of the top brands in our Nordstrom business are in our Nordstrom Rack business. And that is something that we meet with vendors, we meet as JWN, as Nordstrom Incorporated, and how can we really partner with them through the full spectrum of their offer, which includes off-price product.

But we know we needed more specific focus. And so that's just in the last quarter have added that with additional resources in our buying team for Rack focus. And again, that's our opportunity, is to continue to build on adding those great brands. We've -- we piloted some lower-priced product last year and just in a number of categories, just did not resonate with customers.

And really what we continue to hear from customers, why they come into a Rack store, go on Rack.com, is those great brands that -- mainly they see in the Nordstrom channel, to have them at off- price points is really compelling.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That's great. Thank you. Private brands has also been an area that has been a little bit more challenging than the premium brands. Can you talk to the strategic changes that you're making there and potentially the timeline to see those stronger results?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

You asked that very nicely. It's really challenged. It's been a real soft spot for us and that's on us. We've -- at the beginning of the year, we've been frustrated with the performance of our private label product. We made some leadership changes there.

We have a new leader there who we're very excited about. And the opportunities for private label are still there for us. Nothing has changed in that. It's -- when done well, it's a significant margin builder for us. It's also good for customers, filling in categories that selection that is not available out in the marketplace, but we need to execute better.

And part of that is -- and I think one of the themes I'd want to be explicit through our conversation today. It's the amount of change in our industry and the speed with that change is happening is unprecedented and in my time, and I've been doing this a long time. So what's our response to that?

Our response to that is to be more agile. And there's a number of things that we can do to move more quickly, having less inventory, having more fluidity there is part of it. We're investing in our supply chain, be able to move product through more quickly. But in -- there's those opportunities in private label as well to -- if there's such a long lead time in private label.

So our product label product for our Anniversary Sale just ended was placed last fall. And it did not perform nearly as well as our branded product, which confirms the path we're on. So we need to be more agile there so we could be more responsive. As we look to the second half, it's still going to take some time to get the results of our new leadership coming through in the product.

We do have less percentage of our inventory in our own product for the back half of the year than we've had in the first half of the year. Again, the product hasn't been at the level we need it to be. So really, we expect to see improvements in our productivity of our own label product in 2023.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Super helpful color. Thank you. As we balance some of the puts and takes in the environment right now, we see 2 things. One is that a lot of vendors and brands are looking to push higher prices to pass a higher you see -- but at the same time, we're seeing a higher promotional environment. Can you talk to how you're seeing these puts and takes put together in a total pricing strategy for Nordstrom?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. It's interesting because it's -- there are inflation and there's rising prices. And yet we don't see evidence of customers trading down. And as I touched on earlier, it's -- we really see this separation of real strong demand for newness, for higher-priced product. It's a lot of strength there and just an unusual softness for clearance products. So we do not see the interest in customers of having lower priced, older products on clearance. And some of that is very consistent with a pullback in -- for our customer base, the lower income segments of our customer base.

But I think it also highlights where the strengths are, that there isn't this across the board pullback and looking to trade down into lower-priced versions of what people are interested in. If it's the right product, if it's new, we saw during our Anniversary Sale, real strength in regular price new fall receipts that we start to bring in. So there's certainly an encouraging sign as we head into fall and the new season, that there is strength in those categories and those price points.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Those price points in those categories have driven a lot of AUR for the retail industry overall. As you look into 2023, how do you expect the cadence of units versus price to begin to play out?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So I think for us, we had signaled at the beginning of the year. We thought over the whole year, it was going to blend out to a mid-single-digit price increase, which would -- and as you think about the overall sales environment, it is -- it implies fewer units going through, you're making it up through price. We're -- Starting in Q4, you're going to start anniversarying some of those price increases that happened last year.

So we believe next year is going to be a much more balanced moderation of price increases versus units as we go forward. I think you saw a big surge this past year, particularly in the first half on price points.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

And then a final question. Not trying to pin you down on 2023, but one of the things that we're asking a lot of companies at our conference today is how they're planning for 2023. Are you planning for the consumer to be stronger, weaker or about the same next year as you plan your business?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, I think for us, you're hearing a theme from Erik, we're planning to be as agile as possible. So it means that we continue to see -- as we exited the quarter, we continue to see strength in the higher income, our higher income customers. We're seeing that people really responding to newness and in the categories. For us, it's about continuing to improve and drive the premium brands at a great price for Rack.

And it's also about making sure that we have enough flexibility so that we can pivot. So it means having a little -- it's having less inventory going into next year, being able to chase a little bit better. We're seeing some of the supply chain disruption really kind of even out, it's allowing us to open up to be closer and chase some of those components to it.

And so for us, it's just really trying to be as responsive as we can to trends that we're seeing and using data and analytics to help drive that.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

One of the things of being more agile is some of the investments that you're making in your digital capabilities. I would love to hear how you're improving the customer experience now with digital styling services? And what outcomes you're seeing as a result?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. So styling all in, digital, physical styling is a real strength for us. We continue to see a lot of customer demand for styling services. But what's changed over the years is that demand being on the customer terms. In-store styling, having a great stylist is still super important and a big part of our business, and we continue to see a lot of customer demand for that.

But there's times where a customer wants some styling services but not on a 2-hour appointment or whatever the in-store appointment may be. So having a range of digital styling services that are really driven through data and AI is an important part of our business, and we're continuing to see good growth from that.

And as one example, I -- we have a tool that recommends product for customers. And that uses, again, customer data, AI to put outfits together and what can go together that we can offer up to customers online. We use the same tool for our stylists. So our stylists have a data-driven approach of recommending additional products for their customers. And again, we're seeing a lot of strength there.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

So on the digital investments itself as well, we generally reinvest about 3% to 4% of top line back in the business. And it's across -- it's shifted over the last several years, and it's much more about the technology and supply chain piece to it. So the other big investment we're making is making sure we're driving, getting inventory placed in the right market and the Closer to You strategy, to get more throughput, more efficiency, but it also has a greater customer experience because they're getting the product faster as well.

So there's a lot of investments we're making throughout both in the digital, but also on the back-end piece to it to make sure that we're delivering on that customer promise.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Can you contextualize the supply chain investments a little bit more? What does that mean for distribution/fulfillment centers and driving delivery speed? And what benefits do you anticipate to the P&L as you drive that?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So we -- so between technology and supply chain of our capital spend, about 3/4 of it is really in those 2 buckets. The remainder is in ancillary and stores and everything else. So for us, it's about driving that productivity. It's getting data and analytics on flow. It's about getting the inventory, using data analytics to place and more of a pull versus a push model in the different markets to support Closer to You.

And it's about getting -- shortening the time frame on customer delivery when they order online, whether you pick up in a store, you pick it up in a Rack or you get it delivered, is making sure that we're driving that efficiency and a better customer experience. So we have been making investments -- quite a few investments on the West Coast, that's where 40% of our customers are, and we're continuing to ramp those up to get more efficiencies and better scale out of those investments as well.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

One of the consistent themes that we've heard from our conference so far is on supply chain starting to look a little bit better, especially on the upper end of it near manufacturing capacity and freight. Can you comment on that, what benefits are you anticipating?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So it's been -- and I think everyone knows it's been a choppy couple of years, right? Whether you get stuff in the shipping window or it's delayed or it's in the season or it's not or -- and so we were very proactive, particularly for our Anniversary Sale making sure we were delivering early to get product ready because last year, we actually were receiving product pretty late for the sale.

And same thing for holiday, another key area for us is making sure that we're getting that product delivered in order to get it in time for the customer to have the fullest selling cycle on it as well. We are seeing that the shipping windows, people are coming in closer in their shipping windows. We're seeing less disruption.

And so it's really -- it is helping some of the flow that we're seeing and quite frankly, helping some of the sell-through on product as well.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Let's put this all together and think a little bit about Nordstrom's normalized margin level. So what is it? What's the path to achieving that level? And what are the key levers within your own control? And what are the functions of the external environment?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So we have had an investor event in early '21, and we laid out a 6% plus EBIT margin out there, which we think is very achievable for us. And as you thought about our guidance at the beginning of the year, it was actually at the higher end of that guidance. We did have to pull down at the end of Q2. And I would just highlight that we had a 200 basis point improvement in our margin in the first half of the year. So we were definitely on a trajectory to be hitting that.

I think if you step back, there's a number of levers we've pulled, so our Nordstrom banner was up 15% in Q2. And as Erik talked about, the core categories are really resonating. We've had 3 consecutive quarters of growth, continuous improvement in Rack, we did see a slowdown in the June, early July, but we continue to see -- that is a big focus area for us.

So when we look at the pull down on guide, it was slightly on sales, and it was really about the EBIT margin component to it. And at the end of the day, the levers we've pulled is using data analytics on our merchandise margin, which we've seen good progress on. It's the supply chain initiatives we are seeing a lot of good progress on and continue to see that happening in '23.

And if you pull out the incremental markdowns we took for the promotional environment in the second half, we're pretty darn close to hitting that 6% plus.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

And if inflation does persist at a higher rate than many anticipate, does that drive any impact to the margin or the strategic actions that you're doing within those levers?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

So we started -- we anticipated the inflationary environment last fall. And that's when we really started laying out the initiatives we've spent a lot of time on the merchandise margin as well as our supply chain costs, in order to compensate for some of those inflationary pieces to it. The reality is the inflation has come in pretty much what we thought it was going to. And so those levers we're pulling are really offsetting a lot of that.

We're also taking a really good look at making sure that we've got the appropriate labor in our store environment as well, we see the sales component to it, whether it's flexes up or flexes down. So we're building agility on that as well. So in general, we're actually -- we do a lot of scenario planning. And part of our scenario planning is what happens if inflation goes up and what happens if certain things happen, in order to make sure that we're building -- we're building in initiatives to offset some of those that we're seeing.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Super helpful color. Thank you. Several retailers have been commenting on other benefits to the P&L, such as media network. You also have a Nordstrom Media Network. Can you talk about your long-term vision for that and how would you contrast your strategy versus the media networks of your peers? And then for Anne, what's the P&L opportunity.

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Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

I guess like everything we do, it starts with the customer. It's -- as we looked at launching our media network and the opportunity there is how has improved the customer experience. And that may not sound that intuitive right off the bat. But there is the opportunity -- we're a house of brands and having the world's best brands is super important.

And in particular, we have the big national brands, the big luxury brands, but up and coming brands. There's always newness in fashion. And increasingly, that newness starts online with brands that are digitally native brands, that reach a point where they need to expand their audience beyond their direct channels. And that's been a real strength for us to be that partner of choice.

The Nordstrom Media Network allows brands to have another way of telling their story directly and getting to our customers. And when we talk to brands and why they should partner with us, it always starts with our customer base. We have a very strong customer base that is different than brands can get on their own and that feeds into that, that overall story. And so we'll continue to grow that. And it's really been one element of the path of our vendor negotiations continues to be more strategic.

And it's not -- in my day, I used to be a shoe buyer a long time ago, and it was just about what's the hot shoe and let me buy your top 10 items. It's really negotiating has expanded since then, it's to a point now of not just what's great product, but things like how is the product going to show up, how do we improve efficiency with speed and things like telling the story to customers and the Nordstrom Media Network is one of those levers that's available to our brands, and we really look to take a holistic approach with.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Anne, any comments?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So on the opportunity in the P&L, we haven't contextualized that in broad terms. But what I would say is it really, I think, enhances the customer interaction and the content component to it. I think you've got to find that right balance that is not just about the media network, but it also is definitely an opportunity for us as we go through and have these conversations with vendors and, quite frankly, extend the content beyond our current brands as well.

So we've got a lot of credibility with our customers and there's an opportunity that we'll get other things to present to them as part of the media network as we go forward.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That's great. As we think about customers returning to stores more this year than they have in the past couple of years, how are you feeling about your current real estate strategy? And how does Nordstrom Local play into that?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

We feel great about our portfolio. And it's really different by the 2 banners. Let me start with core to our Closer to Your strategy is leveraging our assets and the physical assets we have are super important. And we look at it by market. We don't, the selection we offer and part of fashion is a lot of selection. The long tail of selection is super important. But what goes to that, we don't have any 1 store that carries every SKU that we have available online. But by linking the stores in a market where we have multiple stores, we can get an enormous selection of customers for next-day delivery. And that has been a big strength, point of strength for us.

So -- I lost my train of thought there. Remind me your question.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

We're talking about omnichannel stores and the...

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Footprint. Yes. Thank you. So that -- leveraging that footprint, linking those assets is super important. For the Nordstrom banner, that doesn't require more stores. I don't think it's big news that this country doesn't have a need for more regional malls out there. So we really haven't had a store expansion strategy in the Nordstrom banner. It has been about having more linkage of the physical assets we do have.

So those in Nordstrom stores -- and that includes Nordstrom Rack stores. We have buy online pick up from Nordstrom.com orders in our Rack stores in addition to Nordstrom stores, and we've seen great customer response to that, and it brings traffic to our Rack stores. Locals have been part of that, and we've had in Los Angeles and New York here. And they've outperformed our original business case for them.

Again, they're -- they're different from stores that we don't buy merchandise for them, and therefore, their P&L isn't sales from that, they are points of engagement. And we know when a customer engages at a Local store their spend goes up, trips go up, all sorts of good things go up.

So our focus the last couple of years has been not so much in scaling the Locals as leveraging the assets we already have, which are Rack stores, bringing these omnichannel capabilities to our Rack stores. And that's much more scale, and we've seen bigger impact from that. But we still like the Local part of our portfolio.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Thank you. I think we have time for 1 or 2 questions from the audience. (Operator Instructions)

Unidentified Analyst

I guess last year, for sure, there was this call to action to shop holiday early because maybe the supply chain precluded the right level of inventory. So I guess the question is, is there that this year, is your expectation that there will be shopping early in October. And if it doesn't come, does that change your potential promotional posture or inventory plans?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. That's a good point. I would say there's been a many year trend of holiday getting earlier and earlier. There was that last year because I think the supply chain got a lot more attention out there. But we still had some products coming late last year for holiday. So we have brought in holiday product earlier this year, and we've got a position as well. It's we've seen for the last couple of years, opportunity for us to bring in holiday product earlier, and we expect that to continue.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I think we have time for one more question from the audience, if anyone has one.

Unidentified Analyst

When talking about your inventories earlier, you said your inventory to sales is about in line, but the excess inventory is in the branded, the Nordstrom branded product. Is that sold -- is most of that sold out of the Nordstrom branded store or out of the Rack store? And you alluded to it creeping into Q4 to sell out that inventory, is most of it going to be gone in Q3? Or is this a balance between Q3 and Q4?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. We have our own label products in both channels in Nordstrom and Nordstrom Rack, type of 2 reasons. We do have some directly placed, directly bought for Nordstrom -- our Rack banner. But also, we transfer what's left over from clearance in our Nordstrom banner to our Rack Stores. That was the birth of Racks being a point of clearance for Nordstrom business and really allowing us to bring in fresh merchandise.

So there is Nordstrom product, product in our Rack banner that we need to continue to flush out. As I said, we do have less of that product placed in the back half of the year. So we expect the impact to lessen as the second half goes along, but we still have some clearing out to do there.

Brooke Siler Roach - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. Thank you so much. And with that, I'm afraid we are out of time. Thank you, Erik. Thank you, Anne. I really appreciate you coming and joining us for our conference today.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Alright, thank you.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thank you.
