Q3 2019 NORDSTROM EARNINGS CALL – PREPARED REMARKS

ERIK NORDSTROM

Thank you for joining us today. We're pleased with our results. Our market strategy is transforming our business model in how we're serving customers. We have a unique mix of assets – Full-Price, Off-Price, stores, and online – and we are further linking our businesses to serve customers in new and differentiated ways. The success of our strategy in Los Angeles adds to our confidence as we expand to our top 10 markets. We recently achieved an important milestone with the opening of the New York City flagship store, significantly increasing our presence in the world's top retail market.

Turning to our third quarter results, our earnings exceeded expectations, demonstrating substantial progress in the delivery of our strategy and strength of our operating discipline. Through our customer focus, we drove broad-based improvement in top-line trends of more than 200 basis points relative to the first half of the year. In particular, the Off-Price business delivered positive sales growth and increased profitability through strong inventory and expense execution. We're encouraged by the momentum in our Full-Price and Off-Price businesses as we execute our holiday strategy to establish Nordstrom as a gifting destination for customers.

Through our focus on driving top and bottom-line, we've made notable changes to two key events: our Anniversary Sale and Holiday. As we discussed previously, the priorities for Anniversary are to improve customer satisfaction, drive sales, and increase profitability. Customer feedback from this year's event was positive, significantly raising satisfaction scores. We curated the assortment by building more depth in key brands and items, driving higher sell-throughs. As a result, we had fewer markdowns on Anniversary product in the third quarter, which contributed substantially to merchandise margins.

For the Holidays, we're meaningfully expanding our gifting offer across Full-Price and Off-Price – and making it easier for customers to find gifts by recipient and price point. We're also making shopping more convenient with services such as free next-day shipping, 24/7 order pickup, and complimentary gift wrapping.

The momentum in our Off-Price business delivered positive sales growth on less inventory. We also increased turns for the eighth consecutive quarter and exceeded bottom-line expectations. We've been purposeful about improving inventory flow, refining product allocation, and emphasizing merchandise that's seasonally relevant. Our favorable inventory position allows us to be opportunistic in the marketplace and leads to having a good flow of new product for customers to discover.

Another way we're leveraging inventory is through our market strategy. The investments in digital capabilities – along with assets of people, product, and place – enable us to serve customers on their terms. Our goal is to gain market share while driving customer engagement and inventory efficiencies. There are two elements to this strategy: First, we're giving customers greater merchandise selection with faster delivery – without increasing inventory levels. Second, we're engaging with customers by offering express services such as order pickup, returns, and alterations at additional locations.

We first launched our market strategy in Los Angeles, our largest market, where results are exceeding expectations. Third quarter sales growth outpaced other markets by 100 basis points. In LA, the growth in customers shopping in stores and online was also 100 basis points higher than our average. We anticipate that these customers will increase their spend by four times. Additionally, merchandise sell-throughs were higher in these stores than in other markets, contributing to profitability.

We recently rolled out our market strategy in New York City, San Francisco, Chicago, and Dallas. In the broader New York City market, customers now have faster access to inventory across eight full-line stores including our flagship and our fulfillment center. This represents seven times more selection available for same-day pickup or next-day delivery.

Leveraging existing store assets and digital capabilities enabled us to implement this shared inventory approach – without making additional material investments. Order pickup is our most profitable transaction, and the fourth quarter accounts for 40 percent of its volume. This represents a meaningful opportunity to increase convenience for customers during the holidays, and at a lower cost for us.

Going forward, we're accelerating this strategy to our remaining top 10 markets by the end of 2020 through a continued focus on shared inventory and access to services. This includes plans to open more Nordstrom Local service hubs in Los Angeles and New York. We will leverage additional Rack locations to offer express services, such as order pickup, returns, and alterations.

And finally, we opened our New York City flagship store on October 24th. We've seen strong customer response with 85,000 visits during the opening weekend alone. New York City represents our largest online market, and we expect to see a halo effect when we open a physical location. Already, the sales uptick in the Men's store is exceeding expectations. In addition, one of Nordstrom's key points of difference is the breadth of our merchandise assortment, which creates an inclusive shopping experience.

Customers at this store have responded to our offering, and top-performing brands include Nordstrom Made labels, Topshop, Nike, Canada Goose, Louboutin and Valentino.

Opening this flagship has been perhaps the most important milestone in our company's long history. It is a culmination of efforts across so many people, and we are grateful to them all. First of all, to the many Nordstrom Alumni who over the years established the reputation with customers and as an employer that allowed this opportunity to be there for us. And to our current team across the company – our business is about team, and this has never been more true. We are proud of their dedication and passion in bringing this store to life. Pete and I feel most fortunate to work with so many talented, caring and hardworking people.

I'll now turn it over to Anne to discuss our financial results and expectations for the remainder of the year.

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ANNE BRAMMAN

Thanks, Erik. For the third quarter, we reported EPS of $0.81, exceeding our expectations. We made meaningful progress in improving the customer service and continuing our operational discipline. The consistent strength of our inventory and expense execution contributed to EBIT margin expansion for the quarter. We are delivering on our strategy while driving top and bottom-line results.

Third quarter sales decreased 2.2 percent, in-line with expectations. Full-Price decreased 4.1 percent and Off-Price increased 1.2 percent. Sales trends improved by more than 200 basis points from the first half of the year. We saw broad-based improvement across Full-Price and Off-Price, driven by actions we're taking related to loyalty, digital marketing, and merchandise assortment. Digital sales represented 34 percent of our business, up 300 basis points from a year ago. We saw sequential improvement in digital trends throughout the quarter, most notably at Nordstrom.com.

Customer satisfaction scores on our loyalty program continue to rebound, and digital marketing efforts are driving traffic. As we rebalance our merchandise assortment, we are increasing depth in key items in Full-Price and accelerating seasonal receipts in Off-Price. All merchandise divisions in both businesses improved relative to the first half of the year.

Our gross profit rate increased by 100 basis points over last year. We had fewer markdowns as a result of disciplined inventory management in Off-Price and higher sell-through of Anniversary product in Full-Price. We ended the quarter in a favorable inventory position, down 2.7 percent. And we maintained a positive spread between sales and inventory for the third consecutive quarter.

Our strong expense discipline drove our third quarter earnings beat. Expenses were down 2 percent from last year, excluding the credit charge in 2018 and pre-opening expenses for the New York City flagship. As a reminder, we planned $35 million in pre-opening expenses, of which roughly $10 million was incurred in the first half and $25 million in Q3.

We continue to reduce our fixed costs by realigning our support structure in stores, making end-to-end process improvements in supply chain and technology, and minimizing discretionary spend. Year-to-date, we have achieved $170 million in savings and expect to well-exceed our plan of $150 to $200 million for the year.

Our financial position remains strong. We apply a consistent approach that balances reinvesting in the business and returning capital to shareholders. For the past several years, we have made significant investments in new markets and in digital capabilities to fuel future growth. With the opening of the New York City flagship, we're exiting this generational investment cycle. As a result, we expect capex to slow down from 6 percent of sales this year to 3 to 4 percent beginning in 2020. This reflects a normalized level, inclusive of our market strategy investments related to technology, supply chain, and additional Nordstrom Locals. We anticipate that moderating capex will accelerate free cash flow next year.

We remain committed to our investment grade credit rating. Adjusted debt to EBITDAR was 2.8 times, and we expect it to be roughly 2.7 times by the end of the year, in-line with 2018. On November 6th, we issued $500 million in debt, and in early December we expect to use the proceeds to fully retire the outstanding May 2020 notes. A one-time financing charge of approximately 4 cents in the fourth quarter is not included in our revised EPS outlook.

Turning to our expectations for the full year, we updated our EPS outlook by raising the low end of our range by 5 cents. We're maintaining our annual expectations for a sales decrease of approximately 2 percent. We expect SG&A dollars to be down roughly 1 percent for the year, when excluding last year's credit charge. Gross profit rate is expected to be relatively flat.

As you may recall, we planned sales growth in the second half to reflect a 400-basis point improvement from the first half, and we are on track to meet these expectations. For the fourth quarter, the New York City flagship is expected to contribute approximately 150 basis points of growth, and the remainder is evenly weighted across three drivers – merchandise assortment, loyalty, and digital marketing. As a reminder, gross profit is expected to deleverage from occupancy costs for the New York City flagship. Merchandise margin rate is planned flat, which contemplates a continued promotional environment.

To wrap up, we're pleased with our third quarter results. We made significant strides in delivering on our strategy, and we're encouraged by the customer response. Our achievements – including strong Off-Price execution, improved Anniversary economics, success of our market strategy and the New York City flagship – reflect continued focus on the customer and operating discipline. I'll now turn it over to Trina for Q&A.