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# EDITED TRANSCRIPT

JWN - Nordstrom Inc Annual Shareholders Meeting

EVENT DATE/TIME: MAY 29, 2018 / 4:00PM GMT



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## CORPORATE PARTICIPANTS

**Blake W. Nordstrom** *Nordstrom, Inc. - Co-President & Director*

**Peter E. Nordstrom** *Nordstrom, Inc. - Co-President & Director*

**Philip G. Satre** *Nordstrom, Inc. - Chairman of the Board*

## PRESENTATION

**Philip G. Satre** - *Nordstrom, Inc. - Chairman of the Board*

Good morning. My name is Phil Satre, I am the Nonexecutive Chairman of the Board. And I want to welcome you and thank you for joining us today as we reflect on 2017 and look ahead to 2018.

To start things off, I'd like to name our Board of Directors, and you'll see behind me their images and their titles. First, Shellye Archambeau, former CEO of MetricStream; Stacy Brown-Philpot, the CEO of TaskRabbit Inc.; Tanya Domier, the CEO of Advantage Solutions; Blake Nordstrom, Co-President of Nordstrom, Inc.; Peter Nordstrom, Co-President of Nordstrom, Inc.; Erik Nordstrom, Co-President of Nordstrom, Inc.; Brad Smith, Chairman and CEO of Intuit Inc., and Brad is here as well; Gordon Smith, Co-President and Chief Operating Officer of JPMorgan Chase and Company; Brad Tilden, Chairman and CEO of Alaska Air Group; Kevin Turner, Vice Chairman of the parent company of Albertsons Companies LLC; Bob Walter, the founder and retired Chairman and CEO of Cardinal Health Inc.

I'd also like to recognize that Bob will retire from the board after 10 years of dedicated service. It would be an understatement to say that Bob made our boardroom interesting. He was a unique director and a terrific director, and we thank him for his commitment to Nordstrom over these past 10 years.

We are joined today by Lana Smith and Derek Standifer from Deloitte & Touche, the company's independent auditors; and by Leah Grant from Broadridge. They are the investor communication services for us and the inspector of election today and our proxy tabulator. Robert Sari, the company's General Counsel and Secretary informed me that a quorum is present.

As your Chairman, I share in the commitment of my fellow directors to help guide the management team as they execute the highest value strategy on behalf of you, the shareholder. All of the directors are mindful of the trust that you as shareholders have placed in us through your investment in Nordstrom. As directors, we regularly review the company's performance, both compared to its business model and plans as well as its competition. We also review the deployment of capital and the leadership capability of the company with the overriding goal of developing and executing on a strategy that will optimize long-term value creation for the shareholders.

Now we want anyone who hasn't voted to have that opportunity. Does anyone present today need a ballot? Seeing none, we'll continue on.

I want to review our 3 proposals, which are, number one, the election of 11 directors; number two, the ratification of the appointment of Deloitte & Touche as our independent registered public accounting firm; and number three, an advisory vote to approve executive compensation, typically referred to as the say-on-pay proposal. Thank you for taking the time to vote on our proposals. I will announce the results at the end of the meeting.

Now it's my pleasure to invite Blake Nordstrom to the stage, who will give you a business update. Blake?

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**Blake W. Nordstrom** - *Nordstrom, Inc. - Co-President & Director*

Thank you. Good morning. On behalf of the team, we want to join Phil in welcoming all of you here for our annual review of last year.

Our strategy year in and year out is centered on the customer, and we believe we can best serve the customer by aspiring to be the best fashion retailer in a digitally-connected world. We really think there's 3 pillars beneath that, that help us execute on that. And that starts with having the right product, and Pete Nordstrom and his merchandising team and many are here today have done a terrific job to ensure that we have a compelling



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new merchandise that our customers are interested in. Secondly, how we deliver on service and experience is really a key component of our business. And last, how do we leverage our brand? How do we tell our story?

For 2017, I'd like to highlight a few things. Number one, we achieved roughly \$15 billion in sales. That was a 4.4% increase. I'm mindful that it took this company 82 years to get to its first billion dollars in sales. So all of us that are -- to merchants appreciate one item, one customer at a time. It's a real tribute to our team, what we're 70,000 people to be able to hit that milestone.

In addition, from an earnings point of view, earnings before interest and tax, EBIT, was \$926 million or 6.1% of sales compared to last year, which was \$805 million and 5.6% of sales.

There's a couple of milestones for 2017 that we think are noteworthy. Number one, we served 33 million customers. Secondly, our Racks, which is our best source of new customers through Nordstrom attracted 6 million new customers. Out of that 6 million, 1/3 will migrate to full price business. Our Nordstromrack.com and HauteLook business, our digital online off-price business did just shy of \$1 billion last year. And this year, we'll cross that threshold. It's the fastest-growing business in our company's history to hit \$1 billion. And lastly, 26% of our business now was done digitally.

In the year, we had a number of store openings starting with our third store in Toronto, 6 total in Canada, at Sherway Gardens. We also had 2 relocations in Los Angeles. Our Westside store closed and we moved down the street to Century City. This is a mall that had a quite a significant reinvestment. It's one of our best stores and we're really excited about it. We've relocated our La Jolla store down in San Diego, which we opened in the '80s. We were able to move in the mall, University Towne Centre, from one end of the mall to the other, a new box, and that relocation also has been terrific.

In the year, we opened 17 new Racks and we also had an additional relocation. I guess, I would note a couple of the Racks here in Seattle on the Eastside. We've had a store for some time in Factoria. It's a great store, but we're getting pressed of being able to give the best service that we can within that store. And so we felt there was an opportunity to expand, and so we were able to find a location in Totem Lake and also at Lincoln Square, a part of Bellevue Square. Those 2 additional stores have been a great addition to service customers on the Eastside.

Another store that I would note, and it's reflected in the picture here, is we opened a second Rack in Manhattan. Our first one was in Union Square we opened a number of years ago. It's been terrific. This store is on 31st and 6th. It's a couple of blocks from Macy's Herald Square store, and we're really pleased with the results there.

And lastly, the picture in the middle depicts Nordstrom Local. You may have heard of this. Last October, we opened that store, and I was there 2 weeks ago. It's a terrific store. It's on Melrose. It's 3,000 square feet. It's an old Diesel store. And we've been able to bring in personal stylists, alterations and tailoring. We have an espresso bar. We even serve alcohol there, and we're able to really service the customer with personal stylists there. There isn't inventory there, but we have trucks or vans that are visiting our stores 3 or 4 times a day. Each of our stores are a couple of miles apart, but traffic in L.A. is pretty challenging. And what we're pivoting and moving to, and I'm going to talk about a little bit, is how we can best serve an individual customer versus looking at the business just through the 4 walls of the store. So we're learning a lot through Nordstrom Local, and we think there's more ways that we can serve the customer.

Okay. Next, brand partnerships. I talked about, at the beginning, one of our pillars on being the partner of choice for our vendors. And so our merchandising team has done a terrific job, and so we need to be constantly editing and curating our mix. And we believe we're a good choice for our vendors regardless of channel or inclusive of all channels to attract customers and build their brand. And so these are just some examples of some of the vendors that have really come on in a meaningful way of late and are contributing to our success.

Next. But when I started in the business, there was only a couple of ways that a customer could buy merchandise or return merchandise. What this slide depicts is now there's over 60 different ways that a customer can get merchandise or return merchandise. So the supply chain is a real key component of customer service, and your company has a strong supply-chain component, and we thought it was important to illustrate how we've evolved in that regard.



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So for 2018, I want to talk about some things that have occurred, and particularly, we just had our earnings call the other day and finished the first quarter. Probably the most exciting thing that happened to us was on April 12, we opened our first full-line store, a Men's Store in Manhattan, and it's been a long time coming. The last couple of years, those of you that come to these shareholder meetings have heard us talk about it. Across the street, we're opening the flagship in fall of 2019. Well, we had an opportunity when we were looking at that store, the flagship, we thought there was an opportunity to maybe expand the square footage and go across the street and try a Men's only store. And by getting it open early, we're learning a lot about that customer and it's been terrific so far.

So we have 200 people part of that team. We're really excited about the service and the experiences coming from there and the learnings from the customer. I mean, this is our first store that we've built that we need to be mindful of a customer that may not be coming by car or leaving by car. So it goes back to the supply chain, how can we best serve those customers? Given that it's Manhattan, it's expensive real estate. We don't have much stock space. So we have a store down in New Jersey, our Menlo Park store, where we took an upper floor and did a dedicated stock room for this store. And up to 5x a day, we deliver merchandise. So when we sell an item out of the store, we then replenish that item as well. So it's been a great thing. And if you get a chance, if you're in Manhattan, check it out, between 57th and 58th on Broadway, right by Columbus Circle.

In addition, we've opened 3 Racks, and so -- in Canada. So we have 6 full-line stores in Canada, and we've had some opportunities with systems and other things that cause us to really just focus on the full-line stores and now we're able to offer an off-price as well. It's an important part of our strategy. We think there are synergies between the 2 businesses. Our first one in this picture is at Vaughan Mills. It's in the town of Vaughan just outside of Toronto. Our second store is in Calgary and our third back in Toronto on Bloor Street, and these 3 Racks are doing terrific.

We're really focused on, again, how we can best serve an individual customer. And I want to talk a little bit about Los Angeles. Los Angeles is our largest market. We have 4 million customers and we do \$1 billion in sales there. We have, in the greater Los Angeles area, 16 full-line stores, 27 Racks, a distribution center and a fulfillment center, and now, a Nordstrom Local store. Put that all together, we think we can service the customer on their terms better than our competition. And we can avail ourselves to a much broader assortment of inventory, and we literally can deliver in hours if that's what the customer so chooses.

So we're really trying to accelerate those efforts in L.A. We think there's an opportunity to add to the Nordstrom Local store as well there. And if it's successful, we think we can have that in larger metropolitan markets. But Nordstrom Local is something that you're going to hear more about, and we think we have the underpinnings of something very special there.

In closing, I just would say that your company, over the last couple of years, has made significant investments, whether it was the supply chain or technology or numerous capabilities. Things like Nordstrom Local enable us, we think, to really connect with the customer and win and differentiate ourselves from the customer.

So retail, particularly from a mall point of view, has had its challenges. But we're encouraged about the opportunities. And we're anxious to show to you, the owners of this company, that if we can stay focused on the customer, we can deliver the results that you and we expect. So thank you for listening to me.

And Phil, I'll turn it over to you.

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### **Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Well, now we're at the point in our meeting today where we open it up to your questions. And I would like to invite you to raise your hand you have a question, and we'll bring you a mic, and we'll thank you for investment in Nordstrom.

So I'll open it up and ask if there's questions.

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## QUESTIONS AND ANSWERS

**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

After what Blake said, everybody seems to be very placated and happy.

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**Unidentified Participant**

I'm going to visit your store in New York next week.

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**Peter E. Nordstrom** - Nordstrom, Inc. - Co-President & Director

Good.

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**Unidentified Participant**

And I read kind of a smug interview on the New York Times saying, well, we already have all the nice stores here. So my question is, how does Nordstrom differentiate itself with so many upscale competitors in New York? And then, I have a second question if you have time.

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**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

We'll let Pete answer that. He's been intimately involved in the creation of the New York store, the one that just opened, and the one that will open. So Pete?

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**Peter E. Nordstrom** - Nordstrom, Inc. - Co-President & Director

See now he's going to blame me when he goes there and doesn't like it. I don't know that we can differentiate ourselves a lot in terms of what we sell because it is true that everything in the world is available in New York already. But what we try to do is not try to out-Bergdorf Bergdorf Goodman or out-Barneys Barneys, but be the best Nordstrom store we can be. And when you listen to people talk about why they like Nordstrom, they almost never talk about the physical building or actually exactly what they bought. They talk about the experience. So we've invested a lot of energy in this experience being a good one. And I think we all know intuitively what that is when you go to a store and you like it. And so these are the things that are the hard things to do, and I think get played out over time. So I think we're in a really good spot there. We've got a really good team. Jamie and the folks he's working with directly have done a great job there. So the other part, then, is the products. And the store's not huge, so it's got to be curated. So we're trying to figure that out. I mean, we know we could pretty much sell a little bit of everything there. It's just trying to understand where we have the best chances to be successful. And if you were to look at least early days, what we've done, it really represents kind of the breadth of what we do. We have everything from Nike to Christian Dior that we're selling in that store, and we're selling a lot of it. So we're learning a lot. I think we can evolve that model. But ultimately, we're going to be successful over the long term there because the customer experience is better.

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**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Did you have a second question, sir?

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**Unidentified Participant**

Yes. Well, some shareholders may sometimes question your decisions. I don't think many of us question the integrity of the Nordstrom family, and I think that's probably a big factor in the integrity of the Nordstrom brand. But my question is when you have such dominance, and you're such nice guys, how do you get people to tell you things you don't want to hear? That there's a better way to do things?

**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Board of Directors. I think we've tried to be open in the board room, and we've established, I think, a Board of Directors that brings a lot of different skills and competencies into that board room. So part of the process starts there where you have an independent Board of Directors that's asking hard questions, that's not going to be satisfied unless they believe that the investment or the strategy creates value for the shareholder. And then, I think, we listen to our customers. And they're the other group of people that everybody listens to, to make sure that we're doing the right things to make their shopping experience a valuable one for them. In all the different ways, as Blake indicated, they want to interface with our organization. Blake, do you want to add to that?

**Blake W. Nordstrom** - Nordstrom, Inc. - Co-President & Director

No, I think -- it's a fair question, and it's important that you have truth tellers. I probably get about 20 e-mails, calls and letters a day from customers that there's opportunities. So I'm humbly aware of those opportunities. I think, for myself, personally, I feel fortunate that I work with my 2 brothers. They're not shy about telling me when I have opportunities. We have an executive team that we work with. And as Phil said, we have really strong independent directors. And so we think we have that, but we need to keep working on making sure we're close to the customer and we're aware of what's going on and those opportunities. But I think it's a fair question, and I think this company is uniquely positioned and structured, as Phil said, to try to address that very thing.

**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Thank you, sir. There's a question there.

**Unidentified Participant**

The past year, there was an offer made by the Nordstrom family to take the company private. And as my recollection says, it was about \$50 a share. And what I heard today was everything's terrific, things are looking pretty darn good for the company, which is great. And I do agree that the experience is what counts. My wife has had fantastic things to say about one of the personal stylists in this store. But I'm wondering how the board made the decision to not accept? And why the Nordstroms didn't go higher in light of the fact that they own about 1/3 of the company now.

**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Well, the -- I'll try to answer that. The process of exploring a going private transaction is a very complicated one. The independent directors have to create a special committee, and they, in turn, as a special committee, hire advisers, including strategic advisers as well as financial advisers to evaluate, independently, the future value of the company based upon its past performance and its expected future performance. And that leads to a valuation of the company. And then, the family group, they wanted us to explore this. We agree to do that, but they in turn engaged financial advisers and other advisers to help them reach a value that they believe they can offer to the special committee in terms of taking the company private. And I think where it got very complicated is that the financial markets are still -- despite all of the good things Blake had to say here, the financial markets are still uncertain about the future of what they would characterize as department store retail, mall retail, however you want to look at it. So where you get into a difficult situation is when the financial markets can't meet the expectations of the special committee in working with the family group. And for that reason, we've decided that there wasn't a price that worked and we discontinued the process. Now that -- I want to just add, as we said in the press release, and as Blake just displayed, that doesn't mean that we don't have a very high level of confidence



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in the future of the company. In fact, it's reinforced by the special committee's view that we have a high level of confidence in our strategy and the talent that's executing that strategy, many of whom are in this room today, besides Blake, Pete and Erik. We have the management team represented here and a number of employees who work in our stores and elsewhere. And we have confidence in that group. We know we can do better, and we intend to do better. Any other questions? One here.

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**Unidentified Participant**

My name is Success or that wasn't important. Anyway, so I have 2 very -- 2 particular questions. I'm not quite sure what the sales were last year online. I think you guys said 26% this year, which is excellent. So you guys have the Local, which is in Hollywood or in L.A., which is very much, I feel, like the new way to keep Nordstrom's a ways from being very hands on. Like how New York, how you guys envision about launching in New York, but as well, how you guys did the Men's line, and then we do the full line next year. Do you guys have visions on another Local, let's say, New York, for example? Or is it more so beta testing, looking at that, kind of furthermore seeing how that's going to go? Because I feel the Local is something that's very unique that will take Nordstrom's to higher levels and...

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**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Blake, do you want to...

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**Blake W. Nordstrom** - Nordstrom, Inc. - Co-President & Director

Thank you for your support on Local. It is a test. We're going to add 2 more this year in L.A. so we're going to have 3 total of this year. And then, as we open in Manhattan, if this is successful, and we fully intend or hope it to be, we think a metropolitan, say, like Manhattan really lends itself to have additional locations that make it easy for people to get their alterations done or to do a return or pick up an item. And so we just really want a real seamless 24/7 experience for the customer, however they want to interface with Nordstrom. So we're hopeful that will be the case, but we're in early days. Again, this first store just opened in October.

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**Unidentified Participant**

Perfect. One more question, but that is excellent. I think Manhattan, hands down (inaudible) better. We're guaranteed a win. Next, going with the new wave of the future and stuff like that. Have you guys considered like augmented reality, AR, which does a very hands on? I mean, to really take it the next level.

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**Blake W. Nordstrom** - Nordstrom, Inc. - Co-President & Director

I think we're in really early days of that. But there's no question, there's customer experiences there that lend itself to retail. And I think what we've been working hard is the underpinnings, the platform of data and personalization that we can best serve you and other customers. And so we used to do that many, many years ago in a manual way with a salesperson. They knew you, your family or what you bought last. And we now need to do that digitally and do that with scale. And I just think that's an additional experience what you're describing, that we need to test and learn, and have -- be part of our customer experience.

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**Philip G. Satre** - Nordstrom, Inc. - Chairman of the Board

Any other questions? Well, seeing none, I'm happy to tell you that based on the preliminary results, all of the proposals have passed. So thank you for your support of Nordstrom. Thank you for being here today, and I will now adjourn the meeting. Thank you.



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