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JWN - Nordstrom Inc at Goldman Sachs Global Retailing Conference

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SEPTEMBER 06, 2018 / 2:30PM, JWN - Nordstrom Inc at Goldman Sachs Global Retailing Conference

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Alexandra E. Walvis *Goldman Sachs Group Inc., Research Division - Research Analyst*

PRESENTATION

Alexandra E. Walvis - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Good morning. I'm very pleased to welcome Nordstrom management who we're lucky to have joining us for yet another year at the Goldman Sachs retail conference. My name is Alexandra Walvis. I'm the apparel and accessories brand and retailers analyst here at Goldman. Nordstrom's diverse business includes over 120 full-line Nordstrom stores and over 200 racks as well as the Nordstrom.com, Nordstromrack.com and HauteLook websites. The company recently outlined an exciting path to 2022 at an Investor Day in July. Here to tell us more about it are Blake Nordstrom, Co-President and member of the company's Board of Directors; and Anne Bramman, CFO. We're going to start with a brief video to get everyone jazzed up, and then we'll dive into Q&A.

(presentation)

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

All right. Thank you, Alex, for inviting us. We're pleased to be here today. I recognize that we have limited time in the format of this meeting and to devote as much of that time to questions that you have, so my remarks will be brief. I believe this is the 25th anniversary of this conference. And I think the first one I attended was 18 years ago. And so I was thinking about what that message was and what that subject matter was at that time, and we had some opportunities with our business in the late '90s. And so at that time when I was here with our team, we talked about how we were getting back to fundamentals on a store-based business. So even though we were in the e-commerce for about 4 or 5 years at that time, the vast majority of our business was bricks and mortar and malls, and it was how can we execute better on the playbook that we've been running for many, many years.

Inherent to our business being a fashion retail business has changed. And so what was true then and is true now, but it's accelerated. And so this company has, as many of you know, written some pretty big checks over the last 5 or 10 years to ensure that we're in a position today that we can best serve this customer. We truly believe we have a seamless multichannel environment. I think you'll find that our peers throughout this conference will probably use many of the same words. From our point of view, this is not something new. It's something we've been working on for a long time. We haven't arrived. It's an evergreen subject. But we do -- we're very encouraged and optimistic about our position and our ability to improve our results.

To my right is our CFO, Anne Bramman, and I'm going to turn it over to her in a minute. Anne joined us almost 18 months ago and has been a terrific partner and leader in our company. She was instrumental in our Investor Day conference that you alluded to, Alex, on July 10 that many of you attended or were on the webcast. It was an effort on her and our behest to try to really provide some transparency about those key milestones because we haven't been driving the results to the bottom line that we expect and you, as investors, expect. So we know we're in a position that we've got to demonstrate it. We think the second quarter was a step on the right direction, and we want to continue over the next couple of years demonstrate through this execution that balance.

So with that, I'd like to turn it over to Anne.



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Anne L. Bramman - Nordstrom, Inc. - CFO

Great. Thanks, Blake, and thank you, everyone, for having us. We're delighted to be here today.

As Blake mentioned, we had our Investor Day in July and our most recent earnings call, and you're hearing some common themes and some common messages coming out of that. And it's really that we're targeting to have higher returns to our shareholders. And we're doing this in 3 different ways. The first is growing market share. It's something we've been achieving along for the last couple of years, and it's something we're continuing to focus on. Second is improving profitability and returns. And we're doing this in a number of different ways. And the third is really a continued disciplined approach to our capital allocation, both investing in the business, our inventory discipline as well as capital allocation, returning excess cash to shareholders through dividends and share buyback.

As we mentioned on the earnings call, we're on track for 2018 to be a pivotal year for this company, and we're really excited by that for profitable growth. As we scale our generational investments, our digital capabilities, those are really the 2 biggest areas that are driving this inflection point for us. And then last, we're really excited to share more with you today and answer all of your questions.

QUESTIONS AND ANSWERS

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Thank you so much. Blake, you alluded in your opening remarks to the acceleration that we've seen across both your full-price and your off-price business in the latest quarter. Can you talk to us about some of the drivers of that and how sustainable that accelerated growth is?

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

Well, there's a lot of contributors to that. It isn't any one thing that's made a difference. But in aggregate, it's finally starting to come through in terms of the expectations we have on the business. And it ranges from technology to marketing to supply chain to the fundamental of having our inventories in line. It's really critical that all of our businesses to be fluid and to be able to be as close to the customer as possible. We've worked really hard on being hopefully the retailer of choice for our strategic vendors. We're not manufacturers. Our ability to provide newness and a reason for the customer to buy something is key. And so roughly now 40% of our vendor inventory mix is what we would call limited distributed merchandise, and that's really helping contribute in this environment.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

You've done a great job at recruiting new brands, luxury brands, emerging brands. Why do you think those brands are coming to Nordstrom rather than going to other retailers?

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

Well, again, it's our hope that we're the first choice for vendors, whether it's full price, whether it's bricks and mortar, digitally, off-price, we want to be accretive to their brand. And we believe we are the best source for the aspirational customer that vendors are looking for as well. We need to be current, relevant, and vendors need to stay current and relevant. We have a younger customer. Our average customer is 42 years old. It's a very fashion-forward aspirational customer. And so we think what we're doing aligns with what the vendors are trying to do. And if we do this right, we think we can be a meaningful partner for our vendors.



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Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Not only are you partnering with vendors, but you're also investing in and growing your private brands. And what are the opportunity for those as a part of the assortment?

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

NPG Nordstrom product group is our private label division. It's roughly 10% of our sales. We don't have per se a set number that we're aspiring to achieve with that, but it is a key component of my earlier comment about limited distributed merchandise, and we think there's opportunities to grow that thoughtfully. And we have a strong team with design and sourcing capabilities. So we're working really hard on that. And the customer really responds to that merchandise as well. So we think it's a point of difference, but you're not going to see a wholesale change with that because we're still grounded in the importance of having the key brands and vendors as part of our portfolio.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

We heard from a number of companies, and the message is becoming louder that fashion-forward product is selling better than it has done for some time. Can you help us to understand the drivers of that increase in demand for fashion mobile product and the drivers of the acceleration in apparel growth more broadly?

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

I think it's always been true that the customers looking for newness. It's just really accelerated. And the amount of transparency that's available -- every customer has at their fingertips their mobile device. And the access to fashion and product knowledge and where can I buy it, where can I return it has never been greater. So if you don't execute well as a retailer, you're going to lose that customer to some very strong and viable alternatives. When I started buying -- you could see something develop somewhere in the country or in the world. You could test it. You could reorder it later. Those days are gone. It happens really fast. So I kind of liken it to produce. It's perishable fashion. And we've got to our buyers make sure that we're editing. We have a curated buy. And again, we've got newness and innovation and a reason for a customer to buy something because there are a lot of terrific choices out there. If we go back to the well, if the item becomes ubiquitous or just a commodity, it doesn't resonate as well with our customers.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

It certainly helps as well that the consumer is strong and spending more across the economy. How are you seeing that resonate in your business? Do you expect that consumer to remain strong throughout the rest of the year and into 2019?

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

I'll maybe take a stab and then turn it over to Anne on that. But I think what's interesting at this time, and I've been through a lot of these cycles, is what's unique now at least the last couple of years is that we're in a very historically healthy economy and we have a very healthy customer. And so you should or have in the past seen a real correlation to retail sales. It feels like our team and retailers in general, particularly mall based, have been working hard for pretty flat or difficult results. I think you're starting to see a little bit of a bifurcation of those retailers that have made those investments and have those capabilities where it's connecting with the customer, and the customers voting accordingly with those other retailers that are behind. And it's almost impossible to write a big enough check and to be able to execute and create that culture that the customer needs and expects. So Anne, I don't know what you would add.



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Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. I think what's interesting is we do hear a lot about consumer spending and sentiment. And I think if you look at our results, we're pretty consistent on a trend basis. We talked about in the last earnings call that one quarter doesn't really determine how your rest of the year is going to be. And we gave the example of Anniversary Sale not being a big predictor of what's going to happen for holiday. But I think if you step back and look at our trends over time, they've been pretty consistent in the base business.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

I wanted to talk about some of the strategic initiatives that you have in the business. Maybe given that we're here, New York City is a big new opportunity for you. Can you talk about what you've seen so far in the men's store, and what we should expect from the Tower once that opens?

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

Well, it's a big deal for us, and many of you have heard a lot about it. It's been a long time coming. I think one of the stories was my dad back in the early '60s came to New York looking for a site and quickly determined it was too expensive for my brothers and I. I think we've had 4 or 5 different opportunities over the last 10 years go by the wayside. We're particularly excited about the opportunity we have in the flagship building that's being built right now. It was also a terrific opportunity for us to get and secure square footage across the street to open the men's store first on April 12. We're learning a lot about the customer here. I mean, really the bulk of our business is designed around malls and about customers coming to the store in their car, maybe bringing their return that way and certainly bringing their purchases home. There is a supply chain aspect. There's a flow inventory subject. There's a -- it's a very competitive, very here in Manhattan. And Manhattan doesn't need another retailer. But we think if we execute properly, that there's a reason for Nordstrom store to be here. And again, we're learning a lot. We think we have a more inclusive and diverse buy, and the customer to date has been very positive with that.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Slightly further afield, but perhaps more room for cards is Canada and other strategic opportunity for the business. Can you talk to us about how you see that market shaping up over time?

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

Well, Canada is something we've looked at for a long time. We're an 1.5 hours from the border in Seattle. We -- prior to opening in Canada -- over 20,000 credit cardholders in Canada. I believe 80% of the population in Canada is within 100 miles of the border. They're very knowledgeable about U.S. retailing. We were mindful of some challenges of crossing the border. We spent a lot of time talking to retailers and other sectors as well as ours about what worked and what didn't for them. We were able to secure -- we have 6 locations full-line stores. 5 of the 6 were Sears locations as they were pulling back. It afforded us the opportunity to be in what we thought were the best locations. One of the opportunities was opening Racks. Today, we're opening our fourth Rack in Canada just outside of Toronto. We wanted to, in conjunction with the full-line stores, open Racks. But we had some challenges with the border and with technology, and we wanted to put all of our focus on the full-line stores and make sure we open that properly. Again, our model works when we have the full complement of full-price to off-price, digital. What's missing now is a strong, robust dot-com business up there for us, and that's something to come. But we're really excited about Canada. And what Anne also talked about is, over time, we think that's \$1 billion opportunity. So the 6 stores, we're learning a lot, the full-line stores. The Racks are coming onboard. The 3 Racks we've opened to date are far ahead of our expectations. So we're excited about Canada, but there's a long learning curve there.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Let's talk a bit about Rack in the U.S. as well as in Canada. We're now just under 240 stores, I believe. What's the potential for that banner? And how are you thinking about the fleet going forward?



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

I think Anne and our Investor Relations team that are here reminded me that a couple of years ago, I, on one of the earnings calls, said that we could potentially have as many as 300 stores. As you mentioned today, we're 241. At that time, we didn't have a robust digital business. Today, we have HauteLook and Nordstromrack.com. We acquired HauteLook in 2011. That team down in L.A. helped implement in 2014 Nordstromrack.com. This year, we're crossing the \$1 billion mark for that digital off-price business. It's the fastest-growing business in our company's history to get to \$1 billion. And just like our full-price business, it's how the customer wants to shop. And so it's less about how many stores we have. It's are those stores and the digital business complementary and allow us to best service those customers. So I think it's less about an actual store count. And at this point, we're probably shy of 300. We don't have a set number. We're trying to be thoughtful and opportunistic when real estate opens up, we can get a Rack open almost as soon as 12 months, and they're relatively low cost and they provide a terrific return. So that's a \$5 billion business and growing. It's about 1/3 of our company's business. It's also the #1 source for new customers at Nordstrom. 6.5 million new customers came to Nordstrom through our off-price business and 1/3 of those customers over the year become full-price customers.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

The Rack business you talked about is an off-price business, but it looks very different to a number of the other off-price businesses we see in the market. The price band is a little bit higher, and you also have this big e-commerce presence. Why is it that you think that you have been able to push e-commerce in the Rack business more so perhaps than other off-price peers?

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

Well, our business model is different than many of the competitors. We started our first Rack in 1973 in the basement of our flagship store. The sole focus was to be able to move the goods in an efficient and timely way at full price to create open to buy so we could again enhance that turn and newness. And over the years, it's evolved until today, as I just mentioned, in addition as part of that ecosystem, attracting new customers as well. So it's been a wonderful asset for us. I think what's unique is that we believe we have a terrific partnership that you alluded to earlier with our vendors. And so when they think about closeouts, we hope that we're their first choice. So of the top 200 vendors that we carry at full price, 90% have robust offerings in off-price. And so we think that helps differentiate us a little bit in terms of our merchandise selection. And our average price is higher than many of our competitors. There's a wide range of off-price retailers out there, but we think we're a leader when it comes to fashion with integrity in our pricing and quality and value.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Rack has driven growth in the business. It's also weighed a little bit on margins as you rolled out stores. Would you expect that to continue going forward?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. I think part of what we laid out for our Investor Day for our targets for 2020 and '22 is that we laid out what we call generational investment, which includes Nordstromrack.com, HauteLook, Trunk Club, Manhattan opening as well as Canada that's going to drive about 2/3 of our top line growth and about half of our EBIT growth through the next 4 -- 3 to 5 years. So all those different investments, as you brought up -- 3 out of 4 so far -- yes, Trunk Club, that's right. So those have all continued to drive both the bottom line and top line and also expanded our digital capabilities and offerings to our customers because we're finding they don't really get up in the morning, I'm going to shop online, I'm going to shop in the store. They just don't want to shop. And so the most we -- the way we can make this the most convenient and frictionless for our customer is a win for us.



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Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

You brought up Trunk Club. Can you talk us through the phases of your experience with that asset and what we should expect from it?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes, do you want me to start?

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

Go ahead.

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So we believe that Trunk Club is probably about \$500 million opportunity for us. We did do the acquisition 2014, '15-ish, in that time zone. We did do a reset on the model about a year ago. And we're seeing -- we're focusing more on data and analytics, predictive as well as on the women's business. And we're seeing substantial growth in that business, and we're very pleased with where we're going with that.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

I want to make sure that we take questions from the floor. So if anyone has any questions, do get thinking. And when you have one, put your hand up and I'll try and see. There's some roving mics around. While we wait for some of the questions, we've talked about Manhattan, we've talked about Canada, we've talked about Trunk Club. The other thing that you're spending a lot of time on is building out your omnichannel experience. Why do you think that Nordstrom is ahead of the game on some of these omnichannel investments? And how is that driving business?

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

Well, my brothers and I, it wasn't because we were -- had a crystal ball and we were way ahead of everyone else. But our strategy is to be as close to the customers as possible. And it was very clear and evident to us back in 2000, 2001, 2002, the customer didn't look at separate business units or a separate e-commerce business. They just thought of us as one Nordstrom. And so we've tried since then to create a more integrated model. And whether that's our supply chain, whether that's how we buy the merchandise, how we sell it, how we return it, how we account for it, we've worked really hard and have made substantial investments along those lines to put us in a position today that helps us better service the customer the way she wants to shop with us.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

I believe we have a question up front here.

Unidentified Analyst

Can you hear me? Yes. I was curious, if you look at over the retailing landscape over the last few years, right, everyone's been dealing with the onslaught of hurricane Amazon, everything going digital and things like that. I'm wondering, as you measure the business and you look at your active customers, I'm curious if you have any statistics that you can share with us to help us understand how your customer base has grown over that period of time and just the general health of your active customers.

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Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So our active customers have actually continued to grow. And in fact, more -- over 10 million -- our active customers are growing at single to double-digit growth pretty much every quarter. (Company clarification: Over 10 million active loyalty program customers.) So between the loyalty program that we have in place and non-tender and the credit card, that's actually been a big component as well as all of the acquisitions we're doing through the off-price channel as well. So overall, we continue to see strong customer growth. And actually, our demographics are pretty favorable as well.

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

So we're definitely gaining market share, and we're also attracting new customers. So we do think we're moving forward.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

One of the things that you talk about is having exclusive luxury product in stores and being a destination for luxury product. There are a number of fast-growth online pure plays in the luxury space. How do you think about those in terms of these new competitive entrants to the space? And how can Nordstrom continue to be the destination?

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

I don't know if it's exclusive per se when you talk about luxury. There's very limited distributed goods within the designer market. And our team works very hard to partner with those key designers to get distribution. And they're very thoughtful about in each town, which retailers or their own stores or how they will represent their brand. The designer business has been a strong business for us. It's been growing over the years to one we're really proud of. But it's just not about designer and luxury. We would speak to, again, that limited distributed environment of roughly 40% of our selection that the customer's really responding to. And there are a lot of pure-play e-commerce businesses now that also know they have to have a multichannel experience. And we're hopeful that we're a good partner and choice for them to do that. So there's a number of brands -- last night at dinner, I had the opportunity to talk to Joey from Allbirds. And we've had tremendous success in our Pop-In with Allbirds and expanding that distribution. And so there are a number of strong digital businesses that are finding success and attracting the customer. They're looking for their product by partnering with us and our stores and on our digital sites.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

As we look at the luxury market more broadly, it's been very strong, both across the pure plays and across the multichannel retailers. And it's been outpacing the overall retail market for some time. Do you have any thoughts on what might be driving that strength in some of these luxury businesses?

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

I think from our point of view, it would be that it starts with a very strong and healthy economy and a strong customer, and that there are some key designer luxury brands that have done a good job of evolving and creating newness and inspiring the customer. And so the customers responding to that Gucci and many others have had some really outsized results. So as good as this economy is, they're dramatically gaining market share, and they're good partners with us. Chanel is one of our top vendors, for instance.



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Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

If there are any other questions from the floor, please do make yourself known from the mic. I wanted to move on to some of the cost items. A number of apparel retailers are talking about some of the headwinds to their business, whether it's commodity costs. There are certainly incremental pressures from freight and wages. How are you dealing with those within the Nordstrom ecosystem?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So we continue to look for opportunities to drive productivity and leverage the scale of our business and our SG&A. We've talked about this as part of the goal setting that we had for 2020 to 2022. So we're looking for offsets to all of that. The piece that we -- as we mentioned, we've been investing early in what we call our key digital capabilities, whether it's marketing, technology or supply chain. And because we were making those investments early, it's allowed us to actually now leverage those investments. And we're probably in a different stage than a lot of other folks. In particular, when you look at marketing, we're really driving more the data analytics and personalization components to our strategy. And then on the technology side, we've invested pretty heavily in modernizing our platforms, which is allowing us to be much more agile and cloud based in our solutions and being more responsive to the customer. So we're able to -- and because we've been doing this for a while, it's allowed us to be more efficient in how we're spending and how we're making those investments and have more shots on goal, so to speak. On the supply chain side, this is an area that we're continuing to invest. And we talked about the fact that we're investing in the West Coast. That's going to actually help serve those customers quite a bit and also support the local market strategy that we've launched in L.A. as well. And that will continue to drive both improvement in our cost per unit, our supply chain cost, shipping cost as well as getting it more leveraged in our inventory and being more -- able to get more turns on our inventory with that strategy as well.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

You made some progress on the inventory front. Is there more to come?

Anne L. Bramman - Nordstrom, Inc. - CFO

More to come.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Fantastic. On the -- one of the questions that we're asking all of the conference participants, and you gave some details on this at the Investor Day, so perhaps you could share is about e-commerce growth. And as e-commerce growth grows from here, is it margin accretive or margin dilutive to your business?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So we laid out on, our full-price business, we were at the size and scale that we were actually agnostic from a contribution margin perspective between digital or online and the stores. We are able to get scale out of our model with the variable costs and with labor costs offsetting -- given the commission-based structure that we have in our stores offsetting some of the incremental supply chain costs. What we find interesting is that the vast majority of our customers even though we provide free shipping return to stores. So about 60% of our full-price customers return to store, which allows us to have a quicker sell-through on that inventory and it also helps reduce some of the markdowns because, as Blake referred, it's perishable. And so the sooner you get it back in your inventory and can sell it, it actually helps your margins.



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Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

One of the other things you talked about was how your shoppers that shop in multiple channels are more productive for you than other shoppers. Why do you think those customers are spending more with Nordstrom? And as you convert more customers to being multichannel customers, is that an opportunity for spend?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. Do you want to take that?

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

Go ahead.

Anne L. Bramman - Nordstrom, Inc. - CFO

Okay. So I think for us, it's -- one of our key tenets and our strategy is focusing on the customer experience. We're very focused on making this as frictionless as possible, so everything from reserving online to picking up in the store to Buy Online, Pick Up in Store. And we find that a lot of customers will look on their mobile devices or online and then come to the store because they actually want to see and touch and feel the product as well. So the way that we -- I think the Nordstrom offering with the strategic partnership offering, which is the limited distribution as well as the frictionless experience and the customer service focus, makes it -- these customers that shop multiple channels with us are actually twice as profitable for us than a customer that only shops one single channel.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

In recent history, you've made a few acquisitions of capabilities in the technology-related space. Are there any more of those that we should expect or any other acquisitive activities in terms of the capabilities?

Anne L. Bramman - Nordstrom, Inc. - CFO

It's interesting, we get this question a lot. And I wouldn't see that we're what I would consider to be a huge M&A shop. We've done a couple of acquisitions that have been basically enhancing our capabilities on the digital front with the Trunk Club and HauteLook. And this year, we made a couple of very small acquisitions from a capability perspective on the technology front. We're always going to be opportunistic in looking at things to help supplement our capabilities, but I would not say that we're a big M&A shop.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Sticking on the capital deployment question. You recently made an announcement about an expanded buyback. Can you talk to us about the drivers of that decision?

Anne L. Bramman - Nordstrom, Inc. - CFO

Sure. So as we laid out, we really -- one of our key tenets in returning -- improving our returns to shareholders is, first, investing in the business. Second is making sure that we're maintaining a strong balance sheet, investment-grade rating on our debt. And then the third is really looking at how we're returning cash to shareholders. And so we have a targeted payout ratio that we'd talked about, and then the excess cash we're returning to shareholders. So our board recently authorized a \$1.5 billion program with no date of expiration.

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Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

I wanted to make sure that I ask about the loyalty program. It's a building topic of conversation across retail. It's been a couple of years since you launched the cardless loyalty program. Can you talk to us about your experience in loyalty, what you think your program offers and what the strategy is with loyalty?

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

Loyalty is important. When we think of market, we think of loyalty and how can we be more personalized with each customer. And so yes, 2 years ago, we started a nontender program, and we continue to add to our loyalty program and how we, with our data, can better communicate and service those customers. Those customers are over 30% of our customers, but over 50% of our business is done with those cardholders and through that loyalty program, so it's an important part of our business.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

One of the topics that's come up a number of times at this conference is market share opportunities, and we've seen some big-box department store closures this year. How proactive are you being about trying to take some of that share? Is there a material opportunity?

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

Well, I think we started with we -- first of all, the customer benefits from a competitive environment. So if we have competitors that aren't doing well or if we're in a downtown or a mall that's struggling, then we lose as well. So we benefit from a highly competitive environment and allows us to execute better and grow and evolve the business. Some of those competitors that are pulling back, frankly, aren't our customer. So we don't see a huge impact or anything material with that. But I think we do benefit from being in the best locations. And the fact that our full-line stores are just over 120 stores, we're in the key locations. So we like our portfolio and our footprint.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

We've talked a lot about apparel. You have a number of other categories that you're focused on. Can you talk about which ones are the big drivers of growth going forward?

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

Well, for the second quarter and for our Anniversary Sale, we talked about how important beauty was, and right behind that, the accessory division. And so women's apparel has been a little softer the last couple of years. It saw some improvement in Q1 and Q2. It's a big part of our business. And so I'm encouraged by pockets of that but, again, still some opportunities in there. Our shoe business has been fairly solid, but there's some opportunities there as well. But in general, we have a very balanced approach. And I think to achieve those numbers, all merchandise areas are contributing. I think the one area that we had in our off-price business in Q1 we called out women's apparel that have been struggling. In Q2, I believe they had a 600 basis point improvement, so that really helped get our off-price business back on track.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

With the environment strong and you having called out better AURs and strength across some of these categories, how are you perceiving the depth of promotions across the market? And what are you expecting in terms of the promotionality of the overall retail market through holiday?



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

You mentioned AUR. Our average unit retail has not changed much. It's been pretty consistent with trend. I'm sorry, the second part of your question was?

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

What are you expecting of the promotional environment?

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

Oh, in the promotional environment, we haven't seen any change in that. And again, as we shift our mix to more limited distributed goods, we're actually less involved in some of that promotional activity. But it appears to us that general promotional activity has been fairly consistent.

Anne L. Bramman - Nordstrom, Inc. - CFO

I think the other thing that you're hearing from a lot of people in the States that their inventories are in pretty good shape, which also help as you go in the second half of the year.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

We've talked a bit about the domestic consumer. Another topic of discussion again across the sector has been the strength of the tourist consumer. What are you seeing from the tourist consumer in your stores and online?

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

Well, we see that particularly on both coasts. We really see it in Vancouver for the strong Asian customer base. I think 38% of our employees in our Vancouver store speak Mandarin. And so whether it's in Florida with South America or here in the Northeast from Europe, it's contributed across the board to have a more robust international customer patronizing our stores and our website and our company. So it's definitely help.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Are there material discrepancies across the store base as you look across the U.S. in terms of the types of trends that you're seeing, either consumer strength or the product areas that are resonating?

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

Many years ago, you would see some nuances from Northeast or Southwest or merchandising divisions. The last couple of years, we've seen more parity. And so there's less about outliers and more about a consistent trend and [whether] Pete, who oversees merchandising, really believes in this market that a hot item is a hot item whether you're in Alaska or San Diego or Washington, D.C.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

One of the things that you called out on your recent conference call, also a discussion of the change in consumer behavior was this see now, buy now trend. Can you explain that to us in a little more detail and the customer change that's driving that?



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

Well, the example we used was our Anniversary Sale, which is in July. And that started way back when in Seattle when July is kind of the dog days of retail. I think July, at that time, was our second softest month. And so the weather finally gets better in Seattle. And so how are you going to create a reason for the customer to come in? We took new merchandise with our best vendors and had on day 1 a tremendous value for a set time period, and then it went up and it became a strong back-to-school sale or event where people would literally load up for the fall, both for school and their fall purchases. That's really changed today. Today, someone's buying for today. And so we're seeing kind of year-round seasonal waits or again items that appeal to the customer they can wear right now. They're not putting stuff off to the side. So we've had to adjust the mix of those goods for that event. So that would be an example to your question.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

How much of that do you think is a generational change? And if so, what else is it that the younger consumer is doing differently? And as you recruit younger consumers into the business, you're presumably seeing more of those behaviors.

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

I personally don't view this much as generational. I view it for all customers today that, fine, there are terrific alternatives, choices right now, and they don't have this need to buy in advance in store or load up on something because they have those choices at that time. And again, I think in this multichannel environment, it's very transparent, very seamless and very easy for our customers to shop what their needs are at that given time. I don't know, Anne, if you would add to that.

Anne L. Bramman - Nordstrom, Inc. - CFO

Absolutely, I would say that. And as far as the generational pieces, I think what you're seeing, and again I think it's across all customers, the digital capability where they want to see things online, they want to see it in store. They want to shop the way they want to shop. They really are agnostic as far as the channel. And I think, again, not generational, but across all of our customers we're seeing that.

Alexandra E. Walvis - Goldman Sachs Group Inc., Research Division - Research Analyst

Before we wrap up, I wanted to make sure we talk about some of the initiatives that you have in the L.A. market. You took some of us through them very recently. What's been your experiences of those initiatives so far, particularly in Nordstrom Local?

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

Do you want to start with some of that?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So it's -- we're very excited by the L.A. market. As you guys know, we've got a beta group of customers who've been working with us and launching in that market. What we're doing is really focusing on leveraging our physical and digital assets. We opened 1 Nordstrom Local, which is the tagline of the inventory-less store. So we've actually announced that we're opening 2 more in the L.A. market. And the thought is that it's really about customer experience and service in their neighborhood. And if you've been in L.A. and driven, you know it can take you an hour to go 2 miles, kind of like New York. So this is really an opportunity for people to have inventory ready for them, to meet a stylist there, to return, to pick up goods they ordered online. So it's really a convenience piece to it. Part of this is we've built an app, and we're also leveraging the physical, the



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stores, our supply chain capabilities as well as the digital component. And what it's really doing is allowing us to focus on the customer, to open up the inventory in that market and really continue to drive market share and profitability in that market.

Alexandra E. Walvis - *Goldman Sachs Group Inc., Research Division - Research Analyst*

What role do you expect these apps to have and can that be rolled more broadly across the U.S.?

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

Yes. So we're actually rolling it out in the L.A. market now. And as we continue to learn and refine, we expect that we will be looking at other markets as well.

Alexandra E. Walvis - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Marvelous. Well, I think that's about all we have time for today. Thank you, Anne, thank you, Blake, for joining us. If you could all join me in thanking Nordstrom.

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

Thank you.

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