

# **NORDSTROM Q3 2016 EARNINGS**

## **Prepared Remarks - Blake Nordstrom, Co-President, Nordstrom, Inc.**

Good afternoon, everyone. Our third quarter results reflected our team's substantial progress in making both adjustments to align to current business trends and longer-term changes to our business model.

Before we get started, I'd like to first address the write-down related to Trunk Club. In August 2014, we acquired this start-up as a new channel to serve customers in a personalized and relevant way.

Unfortunately, the business has not performed to the expectations we had when we acquired it, and as a result, we have reduced the value of that asset. Trunk Club continues to be well-aligned with our customer service commitment and value proposition. We remain committed to this business and view it as part of our customer strategy. Mike will later discuss the adjustments we are making to assure its future success.

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Now, I'd like to move on to our third quarter performance. From a top-line perspective, our third quarter benefited from one week of our Anniversary Sale shifting into the quarter. This shift contributed to a comp increase of 2.4 percent over last year. To get a better sense of underlying trends, the combined second and third quarter comps were up 0.4 percent. This is consistent with the trends we've been seeing over the past year.

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As the pace of customer expectations continues to accelerate, it's even more important for us to remain focused on the customer. We are in the midst of evolving our business model to better support shifts in how our customers are shopping with us. While this is a continuous journey, we've made considerable changes in the way we operate to improve the customer experience and increase our productivity. We are extremely proud of our team's efforts over the past year to align inventories and gain greater efficiencies. These outcomes have positively impacted our third quarter results and adds to our confidence as we continue to make improvements to our operating model.

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Our strategy is squarely focused on serving customers on their terms with the high level of product and service they expect from us. This quarter, we have executed on a number of initiatives to better serve customers and drive top-line growth.

In our Nordstrom brand, we achieved another milestone related to our Canada expansion with two successful store openings in Toronto, at Eaton Centre and Yorkdale Centre. With Toronto being the fourth largest market in North America, we believe these stores will be among our top volume stores. They are in outstanding locations, and we're excited about their potential. We now have five stores open in Canada and look forward to opening our sixth, also in the greater Toronto area at Sherway Gardens, next fall. In the U.S., we had a successful opening of our second store in Austin, Texas, at The Domain.

Our Rack business serves as a great way of attracting new customers to Nordstrom. We expanded our reach with 15 new stores this fall for a total of 215 Racks. These stores are complemented by our Nordstromrack.com and HauteLook businesses, which are expected to reach over \$700 million in sales this year.

Offering a curated product assortment is an integral element of our customer strategy. In the third quarter, we launched new collaborations with J. Crew and denim brand Good American. Also in collaboration with Nike, we rolled out a women's lifestyle concept shop in our downtown Seattle and Eaton Centre stores, followed by our Michigan Avenue store later this month. Through these partnerships, we are able to give our customers compelling product that has limited distribution.

We have an unwavering focus on serving customers. This approach guides us on how we set our priorities, allocate resources, and accelerate the speed of our execution. As we head into the holiday season, we are planning the business consistent with the sales trends we've been seeing over the past year. On the inventory and expense side, we have strong momentum in place and remain committed to

continuing our progress to ensure we're best positioned to manage our business. Now, I'd like to turn it over to Mike.

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### **Prepared Remarks - Mike Koppel, EVP & CFO, Nordstrom, Inc.**

Thanks, Blake. Our third quarter results demonstrated the progress we are making to improve our operating model. Over the last year, we have been addressing not only the challenges of top-line trends, but the longer-term impacts of operating a fast growing e-commerce business. In this quarter's performance, we realized operating leverage generated by these adjustments, in particular from inventory and expense. We will continue to identify opportunities to improve our longer-term performance as our business continues to evolve.

Before providing more color on the quarter, I'd like to address our plans related to Trunk Club. As Blake mentioned, because of our revised performance expectations, we recognized a non-cash impairment in the Trunk Club goodwill of \$197 million. While we have reset our performance goals, we continue to believe that Trunk Club provides us with a unique customer experience that we can build upon. To that end, we are making a number of improvements to better serve customers.

- The initial results have been favorable for our customers and improved our economics.
- To help give Trunk Club customers a broader selection of brands, we are also integrating supply chain and fulfillment capabilities over the next year.

We anticipate that these, and other changes we're making, will drive continued growth and improve Trunk Club's results going forward.

Moving to our third quarter performance, our top-line trends were generally consistent with what we've experienced over the past year. We've continued our progress in growing relevant brands that have limited distribution. In our full-price business, our top 20 fastest-growing vendors, which includes many of the brands with limited distribution and our private-label business, collectively grew 20 percent in the third quarter.

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In response to the changes in consumer demand, we aggressively aligned our inventory plans and made significant progress in stabilizing our operating margins over the past two quarters combined. We ended the third quarter with a positive spread between sales and inventory growth. Inventories are well-positioned and current as we head into the important holiday season.

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Stepping back, we've made strategic investments over the past five years to meet changing customer expectations. This enabled us to grow our top-line by 50 percent. As we move forward, we will continue to adapt our operating model to provide an exemplary customer experience and deliver long-term profitable growth.

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This year, we've made tremendous progress in right-sizing our expense trajectory through increased efficiencies across our enterprise capabilities.

- This includes our efforts to expand our digital experience, which is enabled through technology. For example, we've upgraded a vast majority of our website platform, which allows us to accelerate the continuous delivery of new customer-facing features. From a productivity standpoint, we've prioritized our investments toward modernizing our infrastructure and implementing the highest value customer experiences.
- In supply chain, we have implemented a number of initiatives focused on improving the customer experience and reducing per-unit costs. Based on these efforts, we are on track to achieve savings of roughly \$50 million in shipping and fulfillment costs this year.
- In marketing, our expanded Nordstrom Rewards loyalty program represents a meaningful opportunity to directly engage with customers, drive customer lifetime value, and increase the efficiency of our marketing spend. Since the launch of our non-tender offer in mid-May, we now

have more than 7 million customers in our overall program, up over 40 percent from a year ago. In the third quarter, the spend from our loyalty customers made up 45 percent of our sales, which increased around 600 basis points from last year.

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Finally, I'd like to provide additional color on our financial outlook for the year. Excluding the impairment charge, we've raised our full year earnings per share outlook to \$2.85 to \$2.95, from our prior outlook of \$2.60 to \$2.75, to incorporate third quarter results. From a top-line perspective, we anticipate a continuation of trends, yielding flat comps for the year.

In closing, we will continue to aggressively prioritize our resources to ensure that we provide a relevant, best-in-class experience for our customers, while achieving profitable growth. Through our ongoing efforts, we are confident that Nordstrom will remain relevant to customers now and in the future. I'll turn it over to Trina for Q&A.

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