

NORDSTROM

Virtual Chats with Erik Nordstrom and Anne Bramman

April 17, 2020

Our CEO Erik Nordstrom and CFO Anne Bramman recently joined analysts from JP Morgan and KeyBanc for a virtual fireside chat to discuss the impact of COVID-19 on our industry, how we're focused on customers during this time and how we're positioning ourselves for when conditions improve. Below are some highlights and key takeaways from these conversations.

Things are changing at an unprecedented rate, but it is a continuation of longer-term customer trends.

While this is an unprecedented time full of uncertainty, "we do believe these times are going to drive changes with our customers and our industry, and we think these changes are directionally consistent with what we've been seeing for quite some time and have been investing against," said Erik. Specifically, the role of stores, the digital customer journey and convenient access to products and services.

Crisis often provides an opportunity to drive change more quickly and that's what we're really focusing on as we come out of the immediate short-term decisions of the crisis to look more deeply at the capabilities we want, how we want to show up to customers and the competitive advantages we can have.

Financial strength is one of the keys to weathering this crisis and exiting in a position of strength.

"We think these times call for clear, quick, decisive actions especially for our balance sheet and to secure the financing we need to remain healthy and be able to move this business forward. We're not just planning for this period where most people are at home and stores are closed but really looking through the rest of 2020 how do we put us in the best position," said Anne.

"It's about having the most financial flexibility." Anne also touched on all the levers being pulled to create this flexibility. "We exited 2019 with roughly \$850 million of cash on our balance sheet. We also have a revolver of \$800 million that we drew down. We suspended the dividend, we have stopped share buyback and we've targeted more than \$500 million of operating expenses, capital expenditures and working capital to improve incremental cash flow by at least \$500 million for this year. We're also very quickly realigning our inventory with sales trends.

"Our Board is not getting a cash payment, the executive team is taking pay cuts and Pete and Erik have also declined their salary through September. So we take this very seriously. We have a responsibility to our people, to our customers and to all our stakeholders and it's really about taking these steps that not only ensure the short-term, but also the long-term health of the company and coming out of the other side positioning us well. We are very confident in the steps we have taken."

Our competitive advantage is our ability to serve customers seamlessly across multiple touchpoints including our two brands -- Nordstrom and Nordstrom Rack, in stores and online.

Flexibility is not only important financially, but across all operations to better serve customers. "I think one thing that is most important for people to understand is the times we are in can reflect and lend themselves to the flexibility we have in our model," said Erik. "We have stores and online, but more digital capabilities than most in our categories - it's about a third of our sales from e-commerce. There is also the interplay of our Full-Price and Off-Price business. We have a very strong Off-Price business both in stores and online. The online portion of our Off-Price business, NordstromRack.com and HauteLook.com is unusually large. Online, Off-Price is a tough model on its own, but it's part of our ecosystem. It's a very important part and it's a big business."

Amid this crisis, we're fortunate to be able to continue to serve customers online in both our Full-Price and Off-Price businesses to generate sales and clear excess inventory. In Full-Price, we have small teams in our stores to support online fulfillment, which currently makes up about half of online order fulfillment. "This allows us to start to work through the inventory that is stuck in stores. Being able to move that inventory and fill online orders is really helpful to our inventory management, but it also benefits our fulfillment centers and the safety and health practices that we need to have in place for those facilities. Being able to shift some of that demand of fulfillment to our stores has allowed us to operate our fulfillment centers in a unique and better way."

We also recently launched our dedicated e-commerce site to serve our customers in Canada. 100% of our online sales in Canada are fulfilled from our six full-line stores there.

Nordstrom Rack is unlocking new opportunities.

In Off-Price, we have a robust online business, which exceeds \$1 billion in sales. On April 16th, we will start to fulfill Nordstromrack.com orders out of our Rack stores which creates synergy across our business. "It's hard to do Off-Price business online as you get the lower price points and you get limited quantities on things as merchandise is being cleared out. It works for us because it's a part of a bigger ecosystem," said Erik.

A robust Off-Price business not only helps with sales but helps clear out excess inventory from Full-Price. "There is going to be excess inventory really in the whole system in the industry. For us to have that flexibility to leverage our Off-Price business to help clear out that inventory will be key for us. We're also excited about being able to leverage our Rack stores for some of the most sought-after services." Those services will vary by market and what assets are available, but we think having that mix more balanced between big full-line stores and those local stores and services of Rack stores is going to be more and more a part of our future.

Our Market Strategy positions us to continue to serve customers on their terms.

Erik highlighted how even during these uncertain times and beyond, our market strategy remains our primary strategy moving forward with two key goals. "Number one, to engage customers more with services and across channels really addressing some friction points along the way." Specifically, this means providing convenient access to our services, including order pickup, returns, and alterations through Nordstrom Locals and Racks in addition to our Nordstrom Full-Price locations.

"And secondly, better leverage the inventory we have. Inventory is our biggest investment and mostly it sits in stores and most of our stores are close to where most of our customers are. By leveraging inventory already in the market, we're able to bring to customers same-day or next-day delivery with up to 7 times more inventory selection.

"We launched in New York in the fall with our flagship opening, and then expanded our market strategy to Chicago, Dallas and San Francisco. We have plans to add five more markets as we get into this year. Results have been very strong, and those results ultimately are about market share."

As we look past this current moment in time, we know customers like to shop seamlessly between digital and the physical. "We think physical retail and touchpoints are going to be really important, but they could take different forms." Having a menu of assets that includes stores at different sizes with varying forms of inventory and services that also blends seamlessly with an online experience will be a key point of difference in serving customers for the future.

The strength of our culture and the loyalty of our customers are what have and will continue to sustain us through tough times.

"I hope you know from following our company that our culture around service is something that was established long before any of us were around. We are the fortunate recipients of it. It's just who we are, it is in our DNA of taking care of people. That's the type of people we naturally attract and in crisis environments, their character especially comes through," said Erik. Our company has survived wars, a depression, several recessions and natural disasters. The strength of our culture and the loyalty of our customers are what have sustained us through tough times and will continue to do so today.