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<<Oliver Chen, Analyst, Cowen & Company>>

[Call Starts Abruptly] Introduce Erik Nordstrom, Anne Bramman on the stage with us as well as our CEO, Jeff Solomon. Erik is Nordstrom's Co-President, and Anne is Chief Financial Officer. Erik Nordstrom began his career in a stockroom of Downtown Seattle store in 1979. He worked as a salesperson in the shoe department through high school and college. And after graduating from the University of Washington, Erik held numerous positions throughout the company, including buying and regional management.

Anne Bramman joined Nordstrom as CFO in June in 2017, and she currently supports all facets of the company's financial operations. Prior to joining Nordstrom, she served as SVP and CFO of Avery Dennison, a $6 billion global adhesive manufacturer. Nordstrom is the leading retailer in the retail – specialty retailer in the United States. It operates two business units: full-price as well as off-price; full-price with 115 stores, off-price with 238. We see Nordstrom really as a retailer of the future, with a leading digital presence, a leading customer-first approach and a management team that has really invested in the future of retail.

So we'll kick this off with a video presentation. If the webcast could also show the video presentation, then we'll move to fireside chat. Thank you. Thank you for that Erik and Anne. Did you want to start off with some prepared remarks?

<<Erik B. Nordstrom, Co-President>>

Yes, yes. I'll start off. Pleased to be here. Appreciate the invitation, especially being here in New York. New York is actually our largest online market. We're working on increasing our presence here. We opened our Men's Store last year and have our main building opening up later this fall, in October. So they're super important, and in particular, we'll see a great example of, which I'm sure we're getting to, of our focus on local markets and how we're looking at not opening a store here but, really, how do we better take advantage of the opportunities that the overall market has.

And I'll say, just to talk about our unique business model, which has been out for a while, but really, the combination of the full-price business, our Nordstrom brand, our off-price business, our Rack and HauteLook brands, stores and online, we continue to see great synergy amongst those. We see opportunities to better leverage those assets to both serve customers better and to create better returns for our company.

<<Anne L. Bramman, Chief Financial Officer>>

Thanks, Erik, and thank you for coming and hosting us today. We really appreciate it. As part of this in our business model, we are also really focused on delivering our financial targets that we've laid out and deliver higher shareholder return. And we're doing this in three different ways. So first is really growing market share. And we're doing this both in our local market strategy that we'll talk a little bit about later on as well as the investments we make in what we call generational investments, with Manhattan being a great example of that.

The second way we're doing this is really focusing on driving returns and productivity. And we do this through some of our strategic partnerships that we – for inventory and our inventory discipline as well as really making sure that we've got freshness in what we're offering our customers. The other piece that we're doing on this is making sure that we're also very disciplined in our SG&A. And so even in 2019, as we talked about on our recent earnings call, we target $150 million to $200 million of growth in SG&A savings in our business as we continue to drive scale and efficiency in the investments we've been making.

And then last is really about driving or continuing our consistent capital allocation and discipline. So in 2018, this was the 10th consecutive year we had over $1 billion of operating cash and we also returned $1 billion back to shareholders, and we did this through both dividends and share buyback. This is our last big year of having investments once the tower opens here in Manhattan later this fall. We are continuing to invest in the business, but we've been investing early, and we've been driving innovation in the space. And so we're now at the end, where we can actually start driving more productivity and scale and efficiency out of the investments we've been making along the journey.

So with that, we'll open it to questions.

Q&A

<Q – Oliver Chen>: Thank you. So digital is the key theme for what you've done, and you've achieved 30% penetration. How are you balancing digital versus the challenges of physical store traffic and the interplay between those two factors and what you see happening over the longer term?

<A – Erik B. Nordstrom>: Well, we really don't look at our business by channel. It's not – we don't think of one strategy to find the customers and what channel serves us best. We focus on our customers and what assets do we have to bring to bear the – to serve them better. And certainly, stores are one of the most important assets that we have. But it's also the merchandise in the stores and the people in our stores. And I think, as most of you know, we're also experimenting with some other physical assets, like our Nordstrom Local store. We have three of those opened in Los Angeles, which is a store we don't buy merchandise for. It's really focused on our services.

That service engagement is really key for us, and I think a lot of retailers it seems to be a theme emerging, the more you engage customers, really, whatever the service is, the better their spend is. And we know when a customer – for instance, there's a Buy Online, Pick Up in Store, their spend goes up double. When a customer engages these alteration services, a very old school craft, yet their spend goes up three times when they engage with that. So there's, again, assets we can leverage, digital and physical, to engage the customer more, leverage our inventory better and serve them better.

<Q – Oliver Chen>: Local market strategy to us, seems really like the future of retail, the future of the way the customer wants to be served. Could you elaborate on what will happen in local market strategy and also key learnings you've had as this is a new journey in terms of prioritizing the strategy with speed and service?

<A – Erik B. Nordstrom>: Sure. I'll start with that. So first, it was – and when I say it, it sounds so simplistic, but it was a revelation for us to move from doing our business, say, by channel or even by region or an individual store and look at it, which we think is much more how our customers view our business, is assets we have, where they live and shop. So we start in Los Angeles for a couple of reasons. It's our biggest market, where we have the most assets. Also, we want to get started before our tower opens here, which is such a big investment for us, and get some learnings underway.

There's basically two elements to it. One is the engagement services that I touched on, making those services more connected, doing the digital and the physical, making it more explicit to customers. And I mentioned alterations. One of the surprising things to me when we first opened our first local store, how many customers came in and said like, "Oh, Nordstrom does alterations." Yes, we do alterations. We're, I believe, the biggest employer of tailors in all of North America. It's something that is just the core to our business. But for many customers don't know we offer that. So finding ways to make those services more explicit and more convenient for customers.

The second part is leveraging inventory, basically bringing much more selection to customers with a much faster delivery and happens to be at lower cost for us. We have – because we have stores and we have stores where majority of our business is, we have a lot of inventory very close to our customers. And while we've been integrated from a merchandise systems point of view for quite some time with full-price, we saw tremendous opportunities to better leverage that inventory now in stores, but we're opening two facilities in Southern California, supply chain facilities. One is new for us. We call it our local omni-channel hub. And basically, that's – it's not our massive, biggest fulfillment center that carries the long tail of every SKU that we carry.

It really goes to 80%, 90% of the business that we do and the SKUs that drive that and looking at that as one supply chain, both for our customers and for our stores. Part of what goes with our business with inventory, it's broad and shallow. Fashion is not about being commodities. It's not about having 100 deep of a small number of SKUs. We have a large breadth, which means sometimes we don't have the merchandise exactly where the customer wants it. Having this facility that's not far away, that's right in Los Angeles, actually, in Torrance, we can now get merchandise to customers one SKU at a time. We can get it to our stores one SKU at a time.

So that inventory efficiency, we think there's a tremendous customer experience improvement from getting a bigger selection to them faster. But it's also a significant step in the inventory efficiency for us of just better leveraging the inventory for both digital and physical.

<Q – Oliver Chen>: So how are you – when you think about that mechanism, is it really that it would be about being – it's about being able to provide for the customer end to end? So I'm in a store, they don't have my size. I really love this particular shirt. How quickly can I get it? Is it overnight? Will I get it later in the day? Can I get it to – are you encouraging me to stay in the store and browse, and then you'll deliver it? How is that happening? And what has the feedback been?

<A – Erik B. Nordstrom>: Well, first of all, our current stage, 40% of our business is done on the West Coast, yet our closest fulfillment center is in Iowa. So right now, our service to our customers is not what it should be in delivering the merchandise. But we're through – within about 18 months, these two facilities are at scale. The vast – over 90% of our deliveries to West Coast customers will be within two days, and the vast majority of our deliveries to our biggest market in Los Angeles will be within 24 hours. So we'll have, again, this enormous breadth of merchandise within 24 hours to bring to customers. And it allows us to do a lot of things. I think one thing you mentioned I've touched on, which I – we're experimenting…

<A – Jeffrey Solomon>: It was – total delivery. Yes.

<A – Erik B. Nordstrom>: All right. It was awesome. That you can think about of how close it is within hours of an enormous amount of inventory we have within Los Angeles, where we could have a customer, if we don't have their size, we can give them a restaurant-style pager and say, we'll advise you. It's going to be here within an hour. And they go up, and an hour spent in our stores, probably pretty good. They're probably going to buy some things, but you give your customer that option. And there's things – again, it kind of flips from – I think for so long, with the e-commerce boom that started, and you hear of many e-commerce players, pure-play players, who talk about all the benefits of online and how stores were an anchor. Stores are an asset. It is an asset to have inventory that close to customers. We've got to light it up. That's what we've been working on and doing in a very efficient way. But where we have – our big markets where we have a lot of stores, we can do a lot of things that we're referring to.

<Q – Oliver Chen>: And on the inventory question and topic, you've done a great job with inventory management. Lately, you've had to edit some of the inventory given the volatility in the marketplace. Where are you in this journey? And what do you think is happening with the health of the consumer as well?

<A – Anne L. Bramman>: Yes. So I'm going to talk about where we exited our Q4 because we're not talking about what's going on in the quarter until we finish out the quarter and we have our earnings call. But in general, from our inventory, I mean, we do

have a very disciplined approach. We do have our inventory buys, which allows us to chase and react to what the customer is responding to. As you mentioned, coming out of Q4, with some of the softness in trends that we saw, we did start reacting pretty quickly. I mean, this is not our first rodeo. We are a fashion retailer. We've seen this before. And so we started pulling the levers on that. We started also looking at editing some of the brands, quite frankly, really, just those that weren't as productive as they needed to be, and we really did pull back on some of the inventory pieces to it in order to make sure that we have that openness or the Open-To-Buy in order to drive freshness going through – coming at – exiting 2018 into 2019.

So we'll continue to look at that. I think even if you – that's what's going on today. I think if you look at also what we're doing with the local market strategy, this also allows us to really leverage our inventory and offer more choice counts for the customer as well, so it really kind of opens up the whole inventory for that market, for that customer, whether they shop at their local store or not. And so that's another way, longer term, of how we really think about maximizing our inventory and driving working capital.

<Q – Oliver Chen>: Another question we receive from clients also is about bending the cost curve and thinking about the right CapEx level yet being innovative. What's ahead in terms of managing the right projects and also investing for the new customer?

<A – Anne L. Bramman>: Yes. As I mentioned, we've been investing for quite some time. And so what we call – we made our investments in what we call generational investments, and we define that as markets, whether it's Manhattan or Canada, and also some digital capabilities that we acquired along the journey, which was Trunk Club and HauteLook or NRHL.com, Nordstrom Rack, HauteLook.com. So we've been making those investments, and those have been big checks. The last one is this year with Manhattan opening up. So we will continue to get scale coming out of that, and we should see EBIT flow-through on that. We expect those investments to be breakeven by 2022. And we'll continue to see traction in that.

The other piece that we've been really investing in is what we call digital capabilities, so everything from technology to marketing and supply chain in this. You can hear supply chain is kind of that last piece of what we're really investing in. And we've been investing early. And so as we come through this, from 2010 to 2015, our investments improved, 20% investments in these three areas. And we're looking at marketing and to really driving that digital marketing component. It's the personalization. It's data and analytics, on technology. It's really modernizing our stack or platform in order to drive more agility in how we're developing for the customer and driving – trying to reduce friction for our customer as well.

And then on the supply chain, it's really about leveraging our presence in the West Coast market and also our local markets to make sure we're opening up inventory and supply to customer. So from 2010 to 2015, it was about 20% growth. From 2015 to 2017, we, call it, bent the curve. We cut that in half. And then again, from 2017 on, we have been cutting the curve again in half. So right now, we've got about a mid-single-digit growth in these areas. I think for us, if you look at – it's CapEx – in particular, with technology because a lot of that is not capitalized anymore, we look at cash spend. And so when we look at this coming out of this year, we're going to continue to invest in the business, and we think it's going to be about a 3% – CapEx is going to about 3% to 4% piece of sales in the long term. But I think the way we're investing continues to shift. And so this year, we've got quite a bit going into supply chain, Manhattan and in some of the other pieces. Going forward, 15% to 20% of our investments will be between technology and supply chain.

<Q – Oliver Chen>: Thank you. That's really helpful.

<A – Jeffrey Solomon>: So we've been hearing a lot – an awful lot about, in fact, that some of the up and coming brands really do use a go-to partner. And there's risk in those brands. We talk about this all the time at Cowen. We've got our branding, which we all work super hard on. Our performance, it's all about being able to help people to do better than they would otherwise be doing if they weren't engaged with our brand. Sometimes, we're engaged with early brands, and you've got to bring them around. I know we've got a strategy for how we choose to affiliate with growth brands and early brands, and it's very carefully curated. What are some of the things that you're doing on that front? And then how are you thinking about your partnerships and that selection process? I mean, enlighten us a little bit on that.

<A – Erik B. Nordstrom>: Sure. I think it's one of the changes across our industry of – where brands, earlier on, have to make a very explicit strategic decision of how their brand is going to be distributed as opposed to just let me go to whoever's going to buy it. And for us, one of our main drivers is regular-price business. It is – we're not a price promotional retailer. We don't rely on the one-day sale or the friends and the family sale to drive traffic. It is that merchandise mix that brings people in to see what is new. And a big part of that discovery journey is brands. We believe in brands. We think brands are a key part of at least where we participated in fashion. That's apparel, shoes, accessories, beauty. It's not going to become a commodity, where it's just all about pricing and convenience, something that can be, to put it easily, reduced into – you think of online shopping on that product page, the product attributes, where it's all quantifiable. That's not how customers shop, at least where we're participating. People come up and come to us, and they don't know exactly what they want, but they're looking for something new. So that brand's – and have brands that aren't ubiquitous, that aren't available everywhere.

So it's not that we have a strong desire that everything we carry has to be exclusive. As a matter of fact, sometimes, to have some other distribution out there helps the brand tremendously, but having some legs with distribution, having a brand that's focused on building the brand, having regular price sell-through and I think a brand that sees the world as we do of the interplay between digital and physical. And not many brands' story here, but some brands try to see those worlds separately. And it just – I mean, we know when we have a brand in one channel versus having them both, our sell-through just get tampered on that.

So it is – I will say it's one of the most important things we do, is to be the partner of choice, the retail partner of choice for these up and coming brands. And often, even in our business, these brands are smaller companies. They're fast rising. They come on the scene, and we can be a pretty big partner for them. So how we respond really has to be flexible, now what are the needs of this brand, how can we have a win-win and continue to enhance our reputation of being a partner of choice.

<Q – Oliver Chen>: Jeff and I are working with a lot of the New York area retailers, and New York is having a renaissance for the retail. What have been some of your learnings from the Men's flagship? And how will you be different in this marketplace when you launch your flagship as well? We're all excited about it.

<A – Erik B. Nordstrom>: Yes, we're excited, really excited. There's a couple of things from our Men's Store. We opened the Men's Store early. Number one, the building was available. And number two, for the most part, we really want to get some learnings under our belt. And there's a couple of things. I think to merchandise mix, the customers here have really responded. I'll say that it's about great product, that it's not about save many customers by price points. And in particular, the store, it's one of our very strongest stores with men's designer business. It's also one of our strongest with Topman. And so that's the breadth that tends to be unique for us. We ought to talk about – we have – from Vans to Valentino.

That breadth is important for us. It's important to create a kind of environment we want to create, an inclusive, welcoming environment, where people can explore and discover brands and where it really becomes about just having great product. So the merchandise mix has been a big part of it. The services has been a part of it. And services, things like Buy Online, Pick Up in Store, and here, we're able to – we actually have 24/7 ability to have customers do a Buy Online and Pick Up at the Store. We've had express returns, online returns to our stores. The majority of our customers would rather drop off their online return than to mail it back.

And returns are part of the business. When you sell what we sell online, you're going to get a lot of returns. And to be able to make a better experience for customers, certainly to get them in a store, but also for us to get it back faster. Returns are a source of goods. They're coming, and if we can get them back faster by making it more convenient for our customers, it makes a significant difference for us. I think when you – as we look for – look at the women's, the tower, certainly, one of the advantages there is that we're building the building from the ground up. And architecturally, I think most of you know, we've been looking a long time at New York. I asked my dad when we were – he was out here for the Men's Store opening. I said, when did you first kind of looked at the possibility of finding some real estate here? And he said…

<A – Jeffrey Solomon>: 50s

<A – Erik B. Nordstrom>: I was 35. Well, he's 85 now. 50 years ago.

<A – Jeffrey Solomon>: Darn. He had a second bite at the apple in the 70s. We missed that, too.

<A – Erik B. Nordstrom>: Well, we had a few deals along the way that kind of fell through. It's hard to find just the physical space, to have high ceilings or elevators not in the middle of a big floor plate. So to have that – we have 19-foot-high ceilings. The facade is total glass, floor to ceiling. Starting to see this – you see the facade, there was just a wave glass on there. Architecturally, it's going to be not only quite stunning, but it's a building that will be connected to the city.

You'll be able to, from the street, see in and, from in, see out, and – which is something really very important in that. Retailers have moved from kind of being inward-facing, the physical space, to being connected to the environment. And the other part of building from the ground up is we can build the technology in it. That will be our most technologically enabled store, and there's lots of services that aren't quite announced yet that we're working on to be ready for.

And we think, in particular, we talked about local market focus, in a lot of ways, I think it's easier to think about that for Manhattan. I mean, it's an island. People here – people aren't pulling up the store in their SUV and walking out with 10 bags. So what are the things that we can do to really make a difference by leveraging what we have here.

<A – Jeffrey Solomon>: Partnerships with ride-sharing apps might be a really good idea of other way.

<A – Erik B. Nordstrom>: There is a lot of partnerships. I mean, there's some terrific, very hyper-localized delivery services that we're starting to work with. And to be able for – and we think a large portion of our purchases, people won't be leaving with them. They'll buy and leave, will get into their hotel, will get into their apartment, will get through the doorman. And you get things like engagement services, like alterations. There's a lot we can do there.

<A – Jeffrey Solomon>: Yes, there's actually – a lot of the retailers do that here. I mean, a lot of the folks – there's been a lot of learnings that's gone from Walmart and Home Depot and some of the bigger folks who are selling things people can't take with them on the subway. And so there's actually a ton of learnings on how to be connected with some folks. I have a question about your Infinity program, which is an amazing program. And since – we talk a lot about data in our business. Obviously, we're a data-rich business, and our research product is all about being able to not just aggregate the data but to query the data, know what questions to ask the data and then really how to apply that data. How are you doing with your Infinity program? And how has that incrementally helped you to drive margins?

<A – Erik B. Nordstrom>: Well, it's a huge and important part of our business. It's – I think we're up to 11 million customers, and our loyalty program – well over half of our business comes from our loyalty cardholders and members. And yes, there's the lift that

you naturally get from someone being part of the club. They spend more. But the other part is, to your point that the data that you get from it. And I think we're pretty early innings of leveraging that information. And not just segmented customers but really offering much more personalized services and merchandise, so how we present ourselves to customers with the breadth of merchandise that we carry.

We have a fairly broad customer base. We need to come up and be in front of our customers in very relevant ways. And I think there's an economic part of that as marketing to customers digitally becomes more and more expensive. To be able to speak directly to your customers without having to go through third parties is a tremendous asset.

<A – Jeffrey Solomon>: And of course, authenticity. And I think that's one of the biggest challenges that we all face in an increasingly digital world. We know more about our customers and their habits than maybe they do and how do we approach them in a very authentic manner that's not off-putting. It's a very difficult problem to solve for, but obviously, you guys are doing an amazing job with that.

<A – Erik B. Nordstrom>: Yes. I think one of the things, I think, super interesting of – we started in Los Angeles. We had a group of customers, about 800 customers, who we asked to help on our journey of learning there. And so they worked with us very closely. And one of the real key learnings that came from them is they really like authenticity. They like a genuine person to help curate this mass of inventory, but they view something – often, many of them view the relationship with a personal stylist as too much of a commitment, of being – it's been described as like a – it's like a hairstylist. You and your hairstylist, and you're sitting in a chair – I don't do this so much, but I've told this.

<A – Jeffrey Solomon>: Me neither.

<A – Erik B. Nordstrom>: And you may look at the stylist in the next chair, and say, gosh, I'd like to give that stylist a try. But you can't do it because it's too awkward to move to the next chair over. So what they want is how can we get exposed to what stylists – the best stylists, how they're curating merchandise, putting them together, but have it on our terms. And what we've developed at our local app in Los Angeles is profiles of stylists that say, this is – this one about. These are some looks that go together. A stylist can flip through them. I'd use Tinder as an example. I think it's a bad example. But something like that and…

<A – Jeffrey Solomon>: I wouldn't know anything about it.

<A – Erik B. Nordstrom>: Yes, me neither. And a customer can say, put some looks together for me. And the stylist, it's pretty easy digitally to put some looks together, and they can go through and see different styles, how they put it together. That combination of genuine human curation but a digital, lower commitment way of doing it is what they talk about. And that is something that we can bring.

<<Oliver Chen, Analyst, Cowen & Company>>

Transparency and art and science. Thank you, Erik. Thank you, Anne. Thank you, Jeff.

<<Anne L. Bramman, Chief Financial Officer>>

Thank you.

<<Oliver Chen, Analyst, Cowen & Company>>

For being part of today and collaborating.

<<Erik B. Nordstrom, Co-President>>

Thanks, everybody. Everyone, appreciate it.