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EDITED TRANSCRIPT

JWN - Nordstrom Inc Discussion of Local Market Strategy and Expanding Presence in NYC

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OVERVIEW:

Co. discusses on its local market strategy and expanding presence in NYC.



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PRESENTATION

Trina Schurman - *Nordstrom, Inc. - Director of IR*

Good morning, everyone. I'm Trina Schurman, Director of Investor Relations, and I'd like to welcome you as well as those on the webcast here today.

So before we get started, we just have a couple of reminders. First, we may be making some forward-looking statements, so please refer to the slide showing our safe harbor language.

And then second, today's discussion will focus on our market strategy, so we will have our financial discussion take place for our third quarter earnings call, which is scheduled on November 21.

So with that, I'd like to introduce Anne Bramman, our Chief Financial Officer, who will be moderating today's discussion.

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

Well, good morning, and welcome, everyone. We really appreciate you joining us here in New York at the New York Stock Exchange. We are incredibly excited to be opening the store this Thursday, and we really appreciate all your support for this journey and your enthusiasm to learn more about our entry into the New York market and serving our customers here.

Today, we've got a number of speakers. So first, Erik Nordstrom, our Co-President, will discuss our customer strategy and how we're uniquely positioned to serve customers; second, Ken Worzel, our Chief Operating Officer, will talk about the competitive advantage of our market strategy; and Pete Nordstrom, our other Co-President, will talk about how we're serving our customers in a differentiated way through the New York City flagship. Then we'll open this up for Q&A, and we'll be glad to answer your questions.



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With that, I'll turn it over to Erik.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Good morning. Thanks for coming. Yes, I do have to start with -- well, Anne started. This is a big week for us. I hope you all get a chance to come check out the store. It's something that's a long time in the making and really, I think, brings the best of what our brand is, is really all about.

I want to touch on just a little context of what we're trying to do, and we'll get into a little more details as we go along.

So what are we trying to do? We're trying to make customers feel good and look their best. Those are kind of squishy statements. The feel good part - If you've followed our company, hopefully, you know we have a long legacy around customer service, and we really do embrace that subject of feeling good. There -- we're at our best -- there's a humanity to what we do. There's an authenticity to what we do. It's not all about kind of cold and personal transactions. Be it a digital or a physical experience, we aim to bring some emotion to or bring some desire to what we do.

Feeling good in particular is about our service and experience. That subject's changed a lot over the years, how our customers define service experience, what they're looking for. I would say, in general, customers want more control than ever before. They have the ability to be in more control, and we think our response needs to be to be in more places where the customer wants us to be. Again, that could be a physical experience. It could be a digital experience.

I think the most important one what we've come to, to realize, and we're an early investor in a lot of omnichannel capabilities is customers really don't think about channels. They just have the experience they want to have. And those experiences, almost all of them now contain elements of the digital and physical together. Customers are on their phones. We know that more than half of our store sales start with an online visit. We know that more than 1/3 of our online sales start with a store visit. That's the thing that we've been investing a lot in, and Ken will get into some of our plans going forward on that.

The looking your best part, having fashion authority, our product mix is unique. We get, understandably, compared to others and what niche do we fit in. The breadth of our product offering is not only unique. It's an important part of what we do and our appeal to customers. We're not a price-promotional retailer. We're a retailer that really aims to have newness and gives customers a reason to come in and not necessarily know exactly what they want, but know that we're the place to go in and find something new.

The breadth of our brands and the breadth of our price points in particular are key to what we want to do. One of my favorite stats is we know that we're the #1 retailer for customers to make their first designer purchase. And I think that makes sense and reflects this -- both of these things: the breadth of product offering we have and also the welcoming environment. So we can expose a lot of products -- new products to customers. I think we have a good level of trust with customers, and it's something that distinguishes us.

Our model is a bit unique. We have full-price and off-price, our off-price business, namely with our Rack brand. We obviously have physical stores and we have a robust digital business. About 30% of our sales are done online.

These aren't independent businesses. There is a synergy to these 4 businesses. Our off-price businesses are great vehicle for customer acquisition for us. About 1/3 of our new off-price customers every year migrate to full-price. The digital and physical is certainly synergistic when customers engage in more than one channel, they just spend more. So it's something that works really well for us and something we're pretty much focused on.

The other element I want to call out is our services. Again, services is in our heritage, but having compelling services is something we've done for quite a while but are more purposeful in trying to talk to our customers more about it. Something like alterations, which is kind of an old-world craft. We're the biggest employer of tailors in North America. It's something we've invested a lot in. We have a terrific team there. And it is a skill that is highly valued, be it an online experience or in the store.



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We know when customers engage in our services, everything gets better. Their spend with us goes up, retention goes up. So having these touch points and engagement, again, Ken will get into some of this, it could be alterations, it could be a Buy Online, Pick Up in Store, it could be engagement with a stylist, these things all make a big difference for us and our customers.

So with that, to give a little more detail, I'm going to hand it over to Ken.

Kenneth J. Worzel - Nordstrom, Inc. - COO

Thanks, Erik, and thanks to all of you for joining us this morning, and I appreciate seeing many of you again. You've been on us with this journey for a while, and so we want to give you an update on kind of where we are. And specifically, I was going to spend time on -- talk a little bit about our market strategy. Some of you are with us at our Investor Day where we first started to talk publicly about what we were doing starting in L.A. and now all of that, as we mentioned at the time, was part of a learning journey that we knew we were going to want to bring to New York. And that's what we want to update you on today and hopefully give the opportunity to get exposure to.

Just a reminder, when we talked about at our Investor Day and as we've talked publicly about our market strategy, what we're really trying to do, and it speaks to what Erik was just talking about, is we're trying to make sure that we can put customers in control, that we can think give them whatever they want, whenever they want it, wherever they want it. And specifically, what we've seen is -- as you guys know, we've been on a journey to invest in a lot of capabilities. And what we're trying to do now is to bring a connection of those capabilities in our top markets to our best customers and specifically how do we take advantage of the people we have in those markets, the product we have in those markets and the places we have in those markets in terms of physical assets.

So we started that journey about 18 months ago in L.A., specifically testing a lot of things in L.A. And the reason we picked L.A., as we talked about at Investor Day, is it's our biggest market at \$1 billion in sales. We have 4 million customers there. We have a lot of assets there. But we also thought that if we started in L.A., it would give us the opportunity to learn and bring some of those learnings as we open up the New York market.

For those of you who have been with us on that journey, we started in L.A. with a couple of things there in terms of lighting up the integration of our inventory in that market first with a small set of stores. And then more recently in Q2, we scaled it to all of our stores in L.A., so all 16 stores that we have in the L.A. market, full-line stores as well as the 3 Nordstrom Locals that we have in that market.

For those of you who haven't visited, certainly, you have the opportunity in New York to visit our Locals here. We have one in the [Upper East Side] (corrected by company after the call) and another one in the West Village. And those are really neighborhood extensions of our brand. They're service hubs for our brand that give the opportunity for customers to engage with us.

On the services, we know they value order, pickup and returns, alterations and styling. And those have really worked for us. We've really understood how that works in L.A., works differently in New York but certainly has been a big part of differentiation for us.

So what does that do for customers? Really, in terms of our focus on the market strategy, what we're trying to do is serve customers on their terms. A couple of examples of that. One of the things we've done, again, starting in L.A. and now in New York as well is we're giving customers access, visibility to all of the inventory we have already in the market. So in the case of L.A., that was the 16 stores I mentioned. The experience for our customer now is when you go to look for a Buy Online & Pick Up in Store, we can have it ready for you by tomorrow or delivered to you by tomorrow. You no longer filter down the selection in just 1 store. You get to see everything we have in the market. And then we have a backbone of last-mile transportation to move that product around every day to get it where the customer wants it. And that could be to be delivered to their house, that could be to be picked up at a store, that could be to be picked up at Local. And we have the same opportunity that we've lit up now in New York, both taking advantage of the 7 stores we have in the Tri-state market, but also our fulfillment center in Philadelphia where we can get product out of that fulfillment center and then to a customer's hands by next day in the city.

And so what we found in L.A. as we did that is that customers have responded in a significant way. As a matter of fact, it really ties back to Erik's point. Our key differential when we serve customers well is when they engage with us either with services and/or across channels, all of a sudden, their level of spend goes up, their level of satisfaction goes up, and their sales go up. And we've seen that in L.A. If you look at the results so far in



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L.A., we're super encouraged by them. We've seen a significant increase in the number of customers who are shopping across more than one of our channels. And Erik showed you the math about that. That results in a quantum change in their spend with us. We've already seen a big pickup -- in order pickup penetration versus other markets. It's running roughly double. And that's already been our fastest-growing connection with the customers.

And we're also seeing benefits on our side with respect to serving customers differently. Things like with Locals, we're getting our returns back 8 days faster. We're in a business, particularly when you buy digitally, where inevitably there's going to be some significant amount of returns associated with that. As we like to say, we're not selling wine. It doesn't get better with age. We're selling produce. And so the faster we can get it back, the more likely it is that we can resell it still at a good margin. And so we're seeing that in L.A., both with respect to Locals, but also just in the market overall. Our ability to get inventory to customers faster means that we're seeing a materially faster return time in L.A., which helps us a lot.

And we're also seeing, at a total macro level, sales growth in L.A. is outpacing our other metro areas at this point from a full-price perspective. So these things are adding up together in a way that's really resulting in great business outcomes as well as a way to serve customers differently.

So when we think about that in this context, what have we brought to New York? Again, I mentioned, we've opened in the last 6 weeks 2 Nordstrom Locals, so neighborhood; service hubs for customers, Upper East Side as well as West Village. We've also -- we're taking advantage of the fact that we have a Rack store -- 2 Rack stores in Manhattan already as well as our Trunk Club location so that now we're in a position where we can allow customers to have these pickup and return experiences and also alteration experiences at any of those 6 locations on the island. They can also meet with a local market stylist at any of those locations. So we're bringing the 3 core services that we found customers respond to of online, pickup and returns, of alterations and of styling to them wherever they want it. In addition, that inventory selection that we're providing, if you're a Nordstrom cardholder now, we will offer next-day free delivery to your home or office of all of that expanded local market inventory to customers. And that's all just turning on this week in association with us opening up the flagship and opening up the market.

So we're super encouraged. We're encouraged with the response from customers and we're encouraged to bring this to New York. Again, Local is part of this. It's not the only part, but it is an important part to make it convenient for customers to connect with our brand close to where they live, which, as you guys know, in New York is a big deal given how focused people are in the neighborhood. So you can expect us to continue to learn from that and expand that presence as well.

We also have services that we're tailoring to specific neighborhoods with those Locals. So if you have the opportunity to be in the Upper East Side, you'll see we're doing things like stroller cleaning and car seat cleaning in that location given the demographics of that neighborhood. In the West Village, we're doing rotating pop-in shops of merchandise. So we're also learning from the neighborhoods and tailoring these experiences specifically to the customers we're serving in those neighborhoods.

So where do we go from here? We're going to continue to expand and learn certainly in the top 2 markets of L.A. and New York. But we are also -- have already announced plans that we're going to bring that local market fulfillment and delivery experience to 3 more of our top markets this year, so San Francisco, Dallas and Chicago. And we're going to roll out to the rest of our top 10 markets by the end of 2020.

We see that this is a material differentiator for us. Customers are responding to it in a big way. And again, it has significant business outcomes for us as well.

So thank you for your time. And I'll turn it over to Pete to talk about our flagship here in New York.

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

Good morning, everyone. Thank you. Good morning. So I think I'm going to be the guy that maybe can preempt some of your questions, like why are you doing this and how did you make this decision and when and all that stuff.

Now this has been quite a journey for us. I mean this goes back literally decades. My dad is in the back of the room, and it's certainly his generation. They contemplated going to New York. It was such an obvious kind of opportunity. But the standard we always held that to is let's do it if it's a



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good business decision. And we didn't need to be there just to make some kind of brand statement that somehow gave a halo to everything else we did. As we expand and build stores, we did it because each one, one at a time, made sense and we thought it would be a good business proposition. New York always was out there. But as you would understand from being here, there's -- you don't have those greenfield opportunities where something is being built from scratch that comes out of the ground. We had to try to see if we could figure out an existing location. And it was only until very recently that there was some more greenfield opportunities available to us. But we knew it was out there. And we just kind of kept doing our thing, expanding across the country and going to Canada.

When we thought about -- if we're going to enter this market, what does it need to work? And there was 3 elements that were super important. First of all, we needed to be connected to a community and a neighborhood. That was the foundational basis for a business that could sustain it day in and day out. And when this site became available where we are, on 57th, 58th on Broadway, that orientation towards the West Side was super appealing. And it was not as if the West Side customer doesn't have any place to shop. But I think everyone would agree, if you're here, it's not particularly convenient going East from West Manhattan. If you think about Bergdorf and Saks and Barneys and Bloomingdale's, they've built their business almost entirely on the Upper East Side customer very successfully. It was very productive stores.

So we thought, well, gosh, maybe there's a great opportunity if we become the store of choice for the West Side customer. There's a lot of them. The demographics are fantastic for that. So that was important to us: be attached to a foundational neighborhood that can sustain it.

The other thing was take advantage of what New York somewhat uniquely has to offer, and that's the amount of commuters that commute here to work, the Tri-state area, all the people that come in to Manhattan every single day. And you see it coming up out of the ground, out of the subways and what have you, just the sheer traffic that gets generated by people who are working in the city. And so we want to make sure we have that going for us, too.

And then lastly, if you're going to be in New York, you've got to take advantage of the tourist opportunity as well. So we didn't want to position ourselves somewhere we didn't have that.

We knew if we were going to be successful, we had to have all 3 elements at play. And being a block from the biggest tourist attraction in New York City, the Central Park, it's meaningful and knowing how much business is being done there at the Columbus Circle and kind of what was possible. So for us, I mean it really came down to there was a greenfield opportunity when Hudson Yards was developed, and we looked at that very seriously, very closely. It was a really interesting opportunity. At the same time, there was this space where we ended up making the decision to go there. That took a little more creativity, perhaps, knowing they're going to take that building down and they're going to build some super ambitious building and we'd be in the base of it. It's not a perfect box. It isn't all contemplated in terms of like a mall. It would require us doing some stuff a little bit differently, but it felt exciting and interesting. And one of the things we talked about was when we were looking at Hudson Yards is, won't this be great in 20 years? It's going to be amazing.

We didn't have that long. So we said -- when we look at the place where the land and said, "This will be great on day 1. A lot of people are here. If we do our job right, we build a compelling building, we put great merchandise in there and bring a level of service to New York perhaps that's better than what's available now, we think we have a really good chance of being successful." So again, to go back to it, it's -- we're here because we think we can do well here, and we think it's going to help.

The other thing that we learn over time and it's been talked about a little bit already, it's a market play. I mean our online market in the New York area is already our biggest online market. That's without having a physical store right in Manhattan. We're in Roosevelt Field, we're in Paramus and we're in Short Hills, in Westchester. We've surround the thing, but what we know is when we build a physical store in a new market, our online business goes up in the 20% to 25% range -- so it's already our biggest online business. It's going to get better.

We don't really look at this in terms of a stand-alone store. We've been asked a ton of questions about that. Why would you do this, stores and online? I mean we turned that page a few years ago. Our whole thing is how it works together. So if we're going to be successful in the biggest market in North America, we've got to bring all the weapons to bear. We've got to have physical assets that are fantastic, that feel relevant, convenient, inspiring, a lot of discovery there. We've got to have online, back-of-the-house processes and platforms that enable that all to work in the way that customers shop today.



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And so our whole mantra here once we were going was let's make this a really relevant and modern place that connects all the ways that customers want to shop today.

That's a 320,000 square-foot store across 7 levels. That's a more vertical store than we typically have. It seems like that has a good opportunity in working in New York. As you know, we opened the Men's Store about 18 months prior. When we originally were contemplating this site, this space, we wanted to do it all in one building. But as we started to lay it out, it became really clear that we are -- it was going to be a compromise. We wouldn't be able to bring the full breadth of offer that Nordstrom has. We wouldn't be able to do it in a way that feels like it's our best shot. And so as we were in -- working on this, we kept looking across the street. And there's this big banner on the building, it said last big parcel space next to the big Nordstrom store. And the guy who runs our Rack division, Geevy Thomas, said, "We're going to put a Rack there. That's what -- we should put a Rack there." I said, well, maybe we should like just expand the footprint of the full-line store because one of the things that we did, and it was talked about in the video, is we spent a lot of time traveling around the world with different groups of people looking at what really good flagship stores are and how they work. And with a lot of them, and we even have that example here in New York, the Men's Store sometimes is right across the street. I mean it's not preferable. We would have rather had it all together, but we thought it was more important that we could bring the full offer of what Nordstrom is. And the fact that it's right there visually connected, I mean you basically tell a customer, "Look out the window. That's where it is." We think that's going to be great.

One side benefit we have is we always knew that our Men's Store on its own wouldn't be as good as it would be if Women's wasn't attached to it somehow because about 48% of all the business we do in a Men's department is done with a woman buying it for a man. If you don't have the Women's store there, you cut a lot of that out. And what we had in our first 18 months at the Men's Store is about 25% of our business was done with a woman.

So just the fact that we're opening here, you're going to see the productivity of that store go up. The synergy is going to work out great for us. Again, it gets back to that theme of working on with the synergy.

You heard a little bit in the video about the design of it, what we're trying to accomplish. I think this idea is that stores are a lot different today. They used to kind of be fortresses that were completely insulated from the outside. You couldn't see what was going on at all. And we would have done that too if we built the store 20 years ago. But we have the benefit of building it today. So our intent wasn't to come in and try to out-Bergdorf Bergdorf or out-Saks Saks. We're going to do something different. We're going to make the best Nordstrom Store we can make. We can have the most modern, relevant building. We can be connected to the energy of the city. There's just a lot of things about the space that I think you'll agree when you get a chance to get in there that it's different and it's better, and we're super excited about that.

So you've already heard of some talk really about the compelling services and experience and what have you. And again, I think what you'll see in the stores, it's just not a place where we have a bunch of merchandise hanging in there. It's a way to facilitate services and convenience for customers, the idea of 24/7 order pickup. If someone needs something, we're there for them. If someone calls us at 2 in the morning because they've just gotten in town, they realize they packed 1 black shoe and 1 brown shoe, has anyone have ever done that before? Yeah, I have. It's not good. So you need a black pair of shoes, we could take care of the customer for -- on stuff like that.

Same-day delivery to the hotels or wherever people are in New York. We have on-site tailoring that -- the alterations part of that is a huge traffic driver for us and a big differentiator. We are the single-largest employer of alterations and tailoring professionals in the United States. We have it in every store.

If you think about buying stuff online, oftentimes you get it and say, "Oh my God, I need these pants hemmed. What am I going to do?" Well, that's where the Local comes in or go into our physical store. All the stuff, again, synergistically works together.

We have Beauty located on the main floor. What you noticed maybe with some of our competition doesn't do that as much anymore. That's a big traffic driver, big spontaneous generator of volume. It attracts typically a younger customer than the other divisions. We like having it on the main floor as kind of a gateway to entice new customers to come in.



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Lots of things going on there. I encourage you when you get the chance, again, there's a lot of discovery, a lot of things to see and ways that we can serve customers better.

Our merchandise offer, I'm going to talk a little bit about that. We are not the aggregator of everything. We don't have just endless space where we can display everything made. Our job is to be a curator and an editor and bring something a little bit different. If you look at our breadth of offer and what we do, it is different than our competition. And it's purposeful and intentional on what we've done here. When we were thinking about bringing the best Nordstrom Store we can bring to the market, we thought, well, gosh, Nike is a huge brand with us, a really important brand. And every designer customer we know, every rich person we know has got a few pair of Nikes in their closet, too. And at that time, you couldn't buy a pair of Nikes at Saks, you couldn't buy a pair of Nikes at Neiman Marcus, you couldn't buy a pair of Nikes at Bergdorf Goodman.

Since they brought in a little sprinkling here and there that we said, "Wouldn't it be really cool if we could have everything from like Nike to YSL and bring that breadth of offer, the way a modern customer shops today, the way a modern customer's closet actually looks." People don't wear head-to-toe uniforms of a single brand. And we think we uniquely have the opportunity to do something that's way more inclusive. Way more relevant. And we'll generate a lot of traffic and interest in our store. We work hard to bring some special moments and elements in there.

So we do have this really interesting Nike shop that was curated by Olivia Kim. I mean it's amazing going to the Nike Company with Olivia Kim. They're like, "Yes. Pete, nice to meet you. Oh my God, it's Olivia Kim." They all knew who she was. And she's got immense credibility in our market to be able to do things in a one-off way that I'm not -- we could never do on our own. And she's done remarkable. So they literally let her go in the archives and do whatever she wanted with shoes. So her thing was when I was young, I couldn't buy the sneakers I wanted. They're all made in men's sizes. So you go and you'll see Air Jordans and Air Force 1's in all these women's sizes. They let her go ahead and do that, let her recolor some things. It's really spectacular.

And then we got this Burberry offer where we went to them and said, gosh, let's allow you to do the full expression of your brand, kind of a temporary thing, something special and different. They went for it. That was cool. We've got this whole space on the main floor. It's called Center Stage that we purposely didn't permanently allocate to any division. It's basically best idea wins. We're going to rotate something every 5 weeks or so. We're opening up with a big push in Louboutin effort, which is super exciting and you wouldn't see it anywhere else. We've got a lot of things planned here for the next year that will make that really an interesting space. I mean I could really go on and on. We've got an amazing shoe department, actually a couple different floors of shoes. I think it's -- my dad was walking through last night and said, "Hurray for shoes." I mean he's -- that was good. I'm always nervous when he comes and says, "Oh my god, there's not enough shoes." Did it pass the test? Yes? Yes. That's good. So we've got a lot of shoes. Yes.

And I think that, that's important. It's a place where we can win. It's a super important classification, and our experience and ability to have this, again, entire breadth of brands from Vans to Valentino is a differentiator and something we're really going to work hard on.

So with that, I think it's probably best if we move to Q&A, and I can respond and all of us on more questions that you have, all right? There you go.

QUESTIONS AND ANSWERS

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

Should we just pull up the chairs? Okay. Let me get a chair for you.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Yes. Would you, please?



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

Yes.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Thank you.

Anne L. Bramman - Nordstrom, Inc. - CFO

All right. So we are also webcasting this, and so we would ask for you -- for your questions to wait for the mics, state your name and your firm and then proceed with your question. For those on webcast, please text NORD, N-O-R-D, to 37607 followed by your question. All right. So what do you have for us? Oliver?

Oliver Chen - Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst

Oliver Chen, Cowen and Company. What are your thoughts regarding the inventory investment in the top 10 markets versus the non-top 10 markets and making sure that you deliver a best-in-class experience across all your stores? And as you think about inventory management investment in the local markets, what should we know about in terms of our models and what it takes to mirror to really offer that speed advantage?

Kenneth J. Worzel - Nordstrom, Inc. - COO

I'll take the first part of that. We're still -- I would say we're still in the early innings of learning about how customers are responding in those markets and really what it's going to mean in terms of inventory deployment. So far, what we're seeing is a greater efficiency of our existing inventory. So we haven't really changed our model dramatically in L.A. at this point to support that.

Now we are getting a lot of learnings from that, and we'll obviously respond to that. But as an example, there are still some more pieces coming that we will be rolling out over time as part of the market strategy. One of the examples I would give you is we think it's going to give us an opportunity to do some different things in terms of inventory holdback as well as forward deployment. So over time, what you're going to see us start to do now in L.A. is we think we can actually put more selection in some of our smaller stores because the inventory isn't trapped there. It's available for any customer across the market within a day. And we also think we can hold back some more inventory, not flow it all the way to our largest stores immediately, which we think will also make those stores more shoppable without giving up any selection.

So we still have some things we haven't turned on yet with respect to how we manage inventory flow to the store level because we first wanted to just test how the increased selection and speed in the market, how customers would respond to that. So we're now in the process of turning that around and figuring out some other place we can run.

I think it's safe to say, though, from our perspective, one of the business benefits in general of this focus is greater inventory efficiency in those big markets because we're going to get faster turn and we're also, again, getting faster returns. I mean even for the L.A. market overall, if you look at Locals, customers who had engaged with Locals are returning any -- returns are going to make about 8 days faster than average. If you look at the L.A. market in general, we've sped up the speed. We're getting returns back by over a day in the last 6 months, and that continues to get faster.

So there's a bunch of moving parts with respect to inventory. We don't have anything you can plug into your model right now on that, but I do think that there are still some runway for us to optimize further than we've already done.



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Jay Daniel Sole - UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Softlines & Luxury

Jay Sole from UBS. My question is about the third part of the strategy is the tourism. Say, there's like 60 million tourists who come to New York City every year. Can you just talk about what kind of plans you have from a marketing standpoint to attract those tourists into the store and to make them aware of all the services and amenities that the store offers?

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

Yes. I'm not sure specifically, the marketing plan, you guys might know. But I can tell you, one of the things we have going for us is, again, there's a lot of embedded traffic kind of on that space. And the fact is the building that we're at the base of is the tallest residential building in the world. So if you're a tourist coming in from Nebraska or something, you'd go, "What is that?" It's an amazing tall building. And we're going to get a lot of eyeballs on our space because of our location, because of what's going on above us.

I think ultimately, our ability to be successful with tourists is because it feels like a welcoming and an inclusive place. I mean our typical plan when we do build new store like that is to build it one customer at a time. Again, I'm not -- I don't have the answer exactly on the marketing plan. I don't know if you guys have that.

Kenneth J. Worzel - Nordstrom, Inc. - COO

Yes. I don't have a lot of specifics other than to say one of the advantages of opening up the Men's Store first is our team there has already expanded significantly things like the relationships with hotels and concierges programs and some of the other ways to tap into tourists and get ourselves in front of tourists as they come in. But I think with respect to the tower and opening up that, we're going to learn a lot here in the first 6 months on that. And I don't think that we're going in with a point of view about exactly how much and what ways we need to tap in yet to the tourist market. We want to learn our way into that.

That's what we did in Vancouver. We learned a lot pretty early on in Vancouver and have had a lot of success, again, in a similar fashion, just being at the right location of actually ending up doing quite a bit of business with the tourist market there. So I think we'll have more to report on that once the store is opened and we're able to see kind of outcomes we're getting.

Anne L. Bramman - Nordstrom, Inc. - CFO

Great. A question over here.

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

Alex Walvis with Goldman Sachs. A few questions on the returns on the investments. So firstly, can you remind us of the total spend on the market over the last few years and how you're thinking about generating returns on that investment?

Secondly, will there be metrics that we can track to see how you're progressing against those major goals?

And then finally, could you share with us any thoughts on the sales that you're expecting from the New York market and how long it'll take us to scale to some of those last year targets that you've given us previously?

Anne L. Bramman - Nordstrom, Inc. - CFO

Great. All right. So I'll take the investment question. So we haven't been specific about how much we're investing. It is north of \$500 million. You guys can figure that out from our CapEx and everything else. So it is part of our generational investments. And as we've been talking about, we

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should start seeing the improvement overall for generational investments as this investment, the last -- very big investment comes online. And so we don't believe that coming out of this market -- or coming out of the store opening that it's going to immediately hit its maturity. Still, it takes time to hit that. But we also -- when we talked about at the Investor Day, we think this is a \$700 million-plus addressable market for us, and it's already our largest digital market. So we believe that we've got a very good plan, and it's not one that we are -- it's not significant for delivering total company results, but it is something we've given guidance on the second half of the year of being about north of about 100 basis points of top line growth for us. So I don't know if you guys have anything else you want to add on that or -- no?

Omar Regis Saad - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Softlines, Luxury & Department Stores Team*

It's Omar Saad from Evercore. Can you please -- it seems to me that kind of big piece of new information is the rollout to 3 more markets: Chicago, Dallas and San Francisco. That's -- we're already in October. It's late in the year, so obviously, that's been in motion as for this year and the next -- by end of the next year, the rest of the top 10 markets. Can you talk about what really gave you the confidence to take this one L.A. market, I don't know, a couple of months in New York, and say, wow, let's move this out more broadly? Is it a financial metric? Is it confidence you're seeing with the consumer? Help us understand what really tipped you guys over to roll that out more broadly?

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

Ken, will you take that?

Kenneth J. Worzel - *Nordstrom, Inc. - COO*

I'll take that. Yes. I mean I think it wasn't New York, by the way. It was L.A. And we've been testing in L.A. with customers for almost a year and a half now. We expanded in L.A. in Q2 to all of our stores to light up all that inventory. And we so a pretty immediate response. And across the board, I mean there are -- if you look at any one of the sort of indicators that we know matter with respect to how customers behave over time, we saw an immediate growth in the engagement across channel that was significant. We saw growth in engagement with services that was significantly outpacing other markets. We saw even in digital conversion about 100 basis point difference in conversion of people that are starting in our digital properties after they saw. And it's not surprising because we were providing them with greater selection available same day or next day, and that's a big deal, especially -- as you know, our offer being a fashion offer, we can be broad and shallow, particularly when you get down to sizes. So being able to provide that kind of experience to customers in a convenient way really provided a lot of proof points. So for us, it was really the proof point of what was happening in L.A.

The other piece of the puzzle I would say is that I wouldn't say it's trivial to roll out to other markets. And certainly, for our technology and supply chain teams, they would say no, it's really not trivial. But we did build the backbone in L.A. in a way that we could light up other markets without it being a huge bespoke investment. And so still was a relatively big stretch to get light up, San Francisco, Dallas and Chicago, for this local market inventory visibility and fulfillment by holiday. But we had confidence based on what we saw in L.A. that we were going to get measurable business outcomes from that and delight customers. And so we wanted to try to do that in those markets in time for the most important part of the year.

For 2020, we're still working through the details of sequencing and exactly how that's going to work. It's a combination of rolling out that inventory visibility and fulfillment experiences as well as you can expect us to continue to roll out more Locals.

And the third piece, which I've mentioned only briefly about Manhattan, but you'll see us doing more broadly, is lighting up what we're calling express services within our Rack locations -- many of our Rack locations, which is giving full-price customers the ability to use those Rack locations to also do online, pick up and returns of full-price products, also have alterations available with tailoring there. And just given the distribution of where our Rack stores are, that's going to add convenience to the customer journey in the same way that

locals have. So the confidence really came out of the L.A. results.



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Anne L. Bramman - Nordstrom, Inc. - CFO

Trina, do you have...

Trina Schurman - Nordstrom, Inc. - Director of IR

Yes. We just got one from the webcast. So the question is, what are your perspectives on the rental and resale market? Is this something we will see Nordstrom doing or exploring in the future?

Anne L. Bramman - Nordstrom, Inc. - CFO

Erik, do you want to take that?

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Sure. We're certainly interested in it. We think the trends there are compelling. We've got a good relationship with Rent the Runway. We've done some early collaboration just to get going with them. We have a lot of respect for the company that Jenn and her team have built there. And we're intrigued and are very curious about the opportunity there. And I would say the same for re-commerce.

And it fits with, I would say, what our history has been in the last 5, 10 years of trying to add ways to serve customers that our customers find compelling. I would put our HauteLook acquisition in that the bucket. I would put our Trunk Club acquisition in that bucket as well. Two very different experiences, but give us more capabilities, more place we can run to serve customers better. These are 2 that are on our radar.

Anne L. Bramman - Nordstrom, Inc. - CFO

Great. Any more questions?

Michael Charles Binetti - Crédit Suisse AG, Research Division - Research Analyst

Michael Binetti with Crédit Suisse. I guess just to jump off of Omar's question, when we think back to the Analyst Day guidance you gave with some detail around generational investments and nongenerational investments, how to think about the business longer term, were the next 3 cities contemplated in some of those numbers, in -- the front end, but also you mentioned the Pennsylvania fulfillment center and those kinds of things? Is there -- would you characterize those as included within some of the guidance you gave over the long term? Or are these incremental findings that have come along as you've gotten smarter on L.A. and said this is a real opportunity as far as both the investment side and on the revenue side from the next 3 and then, I guess, filling out the top 10 cities?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So from a general perspective, from the local market, when we had our Investor Day, we were really early in the journey. So we weren't really quite sure what the customer reaction is going to be, what our learnings are going to be from that. So fast-forward to where we are now, I think we're much more concrete on what that looks like. And so certainly, as we think about our targets for next year and really looking at those at the end of the year, will certainly be something we would incorporate in more concretely in what we're doing. Yes.

Paul Lawrence Lejuez - Citigroup Inc, Research Division - MD and Senior Analyst

Paul Lejuez, Citigroup. Just to follow up on that. Do you need an increase in the number of fulfillment centers as a result of the local strategy? Or just maybe talk through kind of what's necessary logistically to make that strategy work in these new cities that we're talking about today.



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And then just separately, curious if you could size the New York market for us relative to L.A. and what you expect to see in some of the surrounding stores and suburbs of the New York market as a result of the store opening.

Anne L. Bramman - Nordstrom, Inc. - CFO

Great. Do you want to take that?

Kenneth J. Worzel - Nordstrom, Inc. - COO

Yes. I'll take the first. Well, I'll certainly take the first part and I can start on the second part. With respect to supply chain and our fulfillment network, we've already briefed you guys on the fact we have 2 facilities that we're adding, bringing online in L.A. Those -- I would say those investments were required, they were always required given just the capacity needs of our business and the growth of our digital businesses.

What was different is as we contemplated a focus on our top markets, there were some differences in terms of how we designed that -- those buildings where we put them. I think it's fair to say that if we hadn't been pursuing this focus on markets and speed to customers on our top markets, they probably wouldn't have been L.A.-centric in the way they are. So part of what we've already done is we reconfigured what we were already doing to better support service levels to our top markets.

Now the broader question about what does it mean in terms of needs across the network, we're working through that right now. But I would just point you to the fact that 40% of our business is done on the West Coast. So just the addition of those 2 facilities on the West Coast is a big add in our ability to serve customers not just in L.A., but when we mentioned San Francisco, obviously, we can get next day to that San Francisco market out of those L.A. nodes as well.

Also, when you think about a city -- a top 10 city for us, like Chicago, our Cedar Rapids fulfillment center is similarly situated in a place where it can easily provide next-day service levels into that market. And as we mentioned before, you have the same situation with our East Coast fulfillment center to the New York metro area.

So part of what we're doing is leveraging the assets we already have, I think, independent of our market strategy. There's always a question with our digital growth of where do we need more capacity, and we're working through that part of our network strategy now. But we're very confident we can achieve a lot of what we're talking about both through leveraging our existing network. And again, a lot of this is about how we leverage the forward deployment of inventory that's already in our stores that we can put in our stores.

And we significantly enhanced our ability to fulfill product out of our stores. And if you take L.A. as an example, it's not just that we're getting product a lot faster to customers leveraging out of that local market, we're now at a point from an operating perspective where we can do the pick and the delivery of that last mile in L.A. faster and, frankly, at a same or lower cost than it used to cost us to do it slower from a fulfillment center in the middle of the country. So the trade-off for us is we think we can be efficient in the way we're using our assets and still provide better service levels to customers. Now that differs a little bit as you get into each of the markets. But on balance, we still think we have a lot of opportunity to optimize on that.

And then the second question, I would just point you back to the number that Anne already referenced. We've talked at the Investor Day about New York being a \$700 million-plus market. You can compare that to L.A. being \$1 billion market for us right now in rough terms. So there's a magnitude thing there. It depends a little bit how widely you find the New York metro area. But we certainly expect, and it's been our experience, that the addition of the New York flagship and the presence we're going to have and the inventory and experiences we're going to create will also have a positive impact on the stores in the Tri-state area. We will certainly see how that plays out, but that's certainly been our experience when we're able to bring a flagship experience, that we get some benefit.



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

And isn't the New York market, I mean, like a 40% or 50% larger market than L.A. just on its own? I mean...

Kenneth J. Worzel - Nordstrom, Inc. - COO

You go to the bigger DMA when you say bigger market. I just want to dimensionalize, we're not here to make new statements about how much our opportunity is going to expand in the market yet. We want to be cautious and learn our way into that base that we've already communicated.

Robert Scott Drbul - Guggenheim Securities, LLC, Research Division - Senior MD

Bob Drbul from Guggenheim Securities. Just in the New York and the flagship store. Can you just talk to the merchandising strategy whether it's emerging brands, exclusive merchandise that you got with some of the smaller guys versus just differentiated product from some of the larger vendors that you partner with?

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

Yes. I think primarily, the play is not that we're entirely different. I think the play is that the assortment of what we do is different. We -- in opening, we've got -- most of the large vendors we work with to do some special one-off things for us there. There will be things in that store particularly and hoping that you just would not find at other places. When we -- we've spent this time going around the world and looking at things, and there are some things that are unique. And then you've got stuff like the Nike and the Burberry experience and the Christian Louboutin experience. Those are brands you can see in other places. But what you're going to see and how it shows up in our stores is going to be different.

But again, I think, ultimately, the way that we curate and assort is going to be different and, we think, in a more modern, relevant way. And then ultimately, connecting the service part that is going to help elevate what we do. But I think it's -- actually, being in New York now creates some opportunities for us we didn't have before. In years past, for example, we would lose out on launches, the beauty industry, they want to launch something. If you weren't literally in New York, they just couldn't do it. So even though we're a much bigger beauty customer than Bloomingdale's or these other guys, Saks or Neiman, oftentimes, they would get launches because they have a physical space in New York City. I think now that we're here, it's going to create a lot of opportunity for us to do some special things. And we plan on leveraging those relationships with vendors.

Ivan Philip Feinseth - Tigress Financial Partners LLC, Research Division - Director of Research

Ivan Feinseth, Tigress Financial Partners. What area -- other areas of the country do you see as being an opportunity?

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

Go ahead.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Yes. I'll start. There's not a lot of opportunities for new stores. I mean that's -- I don't think that's a news flash here that there's a lot of new malls being built and opportunities. We're in the top 50 markets. Manhattan has been the big hole in our offer. There's not much there. What opportunity is, is to what Ken's been talking about, namely leveraging our existing assets. There's a lot of productivity to -- we think we can bring to bear from the physical assets, in particular the inventory that we have in there. So we see a lot of growth opportunity from the connection of these assets, but not necessarily a lot of new full-line stores.



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Anne L. Bramman - Nordstrom, Inc. - CFO

All right. We've got time for one more question. Dana?

Dana Lauren Telsey - Telsey Advisory Group LLC - CEO & Chief Research Officer

Dana Telsey. Yes. As you (inaudible)

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

It's a good question about the total percentage of -- I'm not sure exactly what it is. We can get you that. But what you'll see there in Manhattan, I think, is a reflection of when we spend a lot of time looking at what we believe to be the best flagship type of stores in the world, food was a really integral part to that. It wasn't a separate journey tucked away in the corner. It was integrated. And we just said, wouldn't it be great to have some kind of food touch point literally on every floor? So it's more than we've ever done before. But our experiences with having expanded some food offering in our other stores over the years have been successful. So we feel really good about it. And we've done some concepts that are new, working with some different chefs. This is not just a totally in-bred situation, our own -- in doing our own thing. Who are great, by the way, amazing operators, but we felt like treating the food experience much like we would treat the merchandise experience. Why don't we get to the best of the world of whatever is going on there and find a way to bring that excitement into the store?

I'm sorry, the second part was the Norwalk?

Yes, I think what you'd see in that store is, actually, it's got a lot of the same aesthetic issues and design principles that you see in the New York store. You've got that one entire wall that's all glass. It brings in all the light, the whole kind of openness of what that is. And that on the main floor, we literally have eBars on the outside -- facing out. It's inside the store. And just the energy and activity that, that brings -- I mean it's early days, but we think it's really great. I mean we sat there and looked at this, the new store, we feel this way often, but said, "Man, if we can actually take this Norwalk store and just literally replace 50 or 60 stores in our fleet with this one, it will be amazing." It's efficient. It's got enough size to have what you need without being too big and wasteful. The light, the energy, the openness of it, the design, it feels just like a more modern relevant experience.

So we always say that our new store is the best, and we have -- it does give us an opportunity when we contemplate how to reinvest in stores to make them better. One thing we know for sure is creating flexibility, so that we're not locked in on hard aisles and carpet pads, and so that the merchandise offering could ebb and flow. And you see that in places like Norwalk. So when you see us remodeling stores, you will notice that we go to 1 floor surface per floor, and we don't bind these things in with architecture and construction. We allow for more fluid flexibility in terms of our merchandise offer, and that's worked really well for us.

Anne L. Bramman - Nordstrom, Inc. - CFO

All right. Thank you for your questions. And if we didn't get to your questions, please reach out to us. And again, we appreciate your interest in Nordstrom.

Erik B. Nordstrom - Nordstrom, Inc. - Co-President, Principal Executive Officer & Director

Thank you.

Anne L. Bramman - Nordstrom, Inc. - CFO

Thank you.



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

Thank you.

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