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# EDITED TRANSCRIPT

JWN.N - Nordstrom Inc Investor Event

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**Richard A. Hayne** *Urban Outfitters, Inc. - Co-Founder, Chairman & CEO*

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## PRESENTATION

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

Hello, everyone, and welcome to Nordstrom's 2021 virtual investor event. I'm Trina Schurman, Head of Investor Relations. We hope you and your families are safe and well, and we thank you for joining us today.

Before we get started, today's presentation may contain forward-looking statements, so please refer to our safe harbor slide for additional details. We have a full agenda ahead, and joining me today are several members of our executive leadership team.

In a moment, you will hear from Erik Nordstrom, Chief Executive Officer; who will be providing an overview of our strategic plan. Next Edmond Mesrobian, Chief Technology Officer, will discuss how technology is a competitive advantage. You will then hear from Pete Nordstrom, President and Chief Brand Officer, who will cover the transformation of our merchandising model. His presentation will be followed by a panel discussion on strategic brand relationships. Then Ken Worzel, Chief Operating Officer, who'll walk you through enhancing our digital capabilities. And Geevy Thomas, President of Nordstrom Rack, will discuss our plans to broaden the reach of the Rack. After that, we will have another panel discussion focused on governance, featuring Erik, Pete and Brad Smith, our Chairman of the Board. Finally, Anne Bramman, Chief Financial Officer, will discuss our approach to ESG and value creation. We will then move to the Q&A session. Thank you again for taking time to join us today. We'll now open the meeting with a short video.

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**Erik B. Nordstrom** - *Nordstrom, Inc. - CEO, Principal Executive Officer & Director*

Hello, and welcome. I'm Erik, and I'd like to thank you for being with us today and for your interest. Nordstrom was founded over 100 years ago on the premise that success would come by offering customers the very best service, selection, quality and value. That remains our guiding principle today. Putting the customer first is in our DNA, and it is embedded in everything that our talented teams do. Our purpose is to make customers

feel good and look their best. We are moving with speed and agility to meet changing customer needs while remaining true to our core. We are building on our efforts from the past few years and charting a new direction for the company that we are calling Closer to You. Through these efforts, we are committed to significantly expanding the aperture of who we serve and where and how we serve them. We are doing this by unlocking the full power of the digital-first platform that we have built to capture market share gains, drive profitable growth and create significant value for our shareholders.

We are excited to walk you through our plans for how we will do this over the next several years. We have developed this strategy in a retail landscape that has experienced a period of accelerated change. We have seen a transformation in who the customer is, what the customer wants and where and how the customer shops. And as a result, exceptional service, which has been the hallmark of Nordstrom since its founding has changed as well. Meeting these evolving needs with our customer at the center is the foundation of what we will share with you today. Starting with who the customer is. The composition of the U.S. population is changing, is becoming younger and more diverse. And we're seeing growth in the spending power of younger customers as they age into the sweet spot of income generation and purchasing power.

In fact, millennials are expected to make up approximately 50% of personal goods spending in the next 4 years as they grow into the highest earnings period of their lives, which means we must ensure we are meeting their needs and engaging with them on their terms. That brings me to changes in what the customer wants. First, we've seen customers migrate towards premium and off-price products. You'll hear more about how we're positioning our Rack business to address this need later from Geevy. Second, customers are looking for brands and retailers that reflect their values, brands that are focused on sustainability in the environment, that are diverse and inclusive in their brand positioning and are committed to giving back to their communities. We've long believed that we are all made better by the diversity that exists within our communities. Our values are centered on the notion of creating a place where everyone is welcome, respected, appreciated and able to be themselves.

To that end, we have expanded our commitment to diversity, inclusion and belonging. Pete and Anne will later describe our commitment to the highest environmental, social governance standards. Third, the lines between dress and casual are blurring, with customers increasingly looking to incorporate casual styles into their wardrobes across activities and occasions. You'll hear from Pete about how we are uniquely positioned to provide the most relevant offering for customers.

Finally, how the customer shops from discovery through to delivery has evolved to become increasingly digital. And the pandemic has only further accelerated these changes in behavior as customers are increasingly connected and mobile. Over the past 5 years, digital commerce has grown at a 17% annualized growth rate to just over 13% of total retail sales. For the categories we sell, that number is closer to 40%. In addition, the rise of social media platforms has disrupted the discovery process. It is no longer driven by merchants in the fashion media with influencers becoming increasingly important in setting trends. This raises the stakes for service as a personalized and convenient experience across both the digital and the physical.

Since the founding of our company, our focus has always been on the customer. That's never been more important. We strive to make customers feel good and look their best. At the heart of our business transformation is the recognition that the unique combination of the Nordstrom and Nordstrom Rack brands, along with our combined physical and digital expertise create a powerful opportunity to get closer to the customer than ever before. As we look ahead, we are building on these efforts and charting a new direction for the company that we are calling Closer to You. This new direction is centered on unlocking the full power of the digital-first platform that we have built by significantly expanding the aperture of who we serve and where and how we serve them. Against this backdrop, we are uniquely positioned to serve the customer on their terms. We have a business model unlike any other in the industry.

With Nordstrom and Nordstrom Rack, we have 2 powerful interconnected brands that create a unique value proposition for customers. We have built on this advantage through the investments we have made to create a connected experience across our digital and physical assets. Since announcing market strategy in 2018, we have expanded the model to more markets and integrated Nordstrom Rack faster than scheduled. And now we generate more than 50% of our sales digitally. We also continue to set the standard for service. It's part of our DNA. It's what we're known for, and it's what we are most proud of. We also strive to be the best partner for the best brands, allowing us to offer the best selection from the brands that matter most to our customers.

Starting with our 2 powerful brands, Nordstrom is the leading destination for unique breadth of product across brands, styles and prices complemented by unmatched services and experiences. Nordstrom Rack is the premier off-price destination, offering in-demand products and a treasure hunt experience at compelling prices. Importantly, Nordstrom Rack also serves as an entry point to our platform as the largest source of new-to-JWN customers, but the real power in our platform comes from the way these 2 brands come together to serve over 35 million customers who visit our stores and online site 1.9 billion times a year and buy from us 133 million times every year.

Looking at our physical and digital assets, we have a strong foundation. Digital penetration has more than doubled over the last 5 years, and we have a healthy fleet in desirable high-traffic locations. Our primary focus over the past several years has been to connect the two, allowing us to serve customers when, where and how they want to shop. We enabled order pickup and store fulfillment more than 10 years ago at Nordstrom. And we continue to scale and optimize the customer experience. Notably, we have recently expanded ship to store, store fulfillment and order pickup to include both Nordstrom and Nordstrom Rack.

Since the founding of our company, our focus has always been on the customer. That's never been more important. At Nordstrom, we strive to make customers feel good and look their best. And we have the potential to engage with these customers in highly personalized interactions that go beyond the transaction, from styling to alterations to the easiest returns available anywhere. While we excel here, we are committed to extending our capabilities, providing not just convenient and good service, but real connection, the hallmark of great service. And we will do so in our stores and online while translating our service expertise more effectively from one-on-one-to-one to many in an increasingly digital world. You will hear more on this later today from Edmond and Ken.

Core to our brand promise is delivering the best selection across the brands that matter most to our customers. The way we do that is by being the preferred partner for the best brands. These are brands that not only resonate with our customer, but also play an essential role in discovery. Having the right mix of brands is key. Customers don't just shop with one brand, they are mixing and matching and shopping across high and low for a single outfit. We are uniquely positioned to deliver on this. And importantly, we deliver value for our partners as well. Our approach is unique in the industry, and we continue to find new ways to be the partner of choice.

Clearly, Nordstrom has a strong foundation and unique competitive differentiators. So where do we go from here? We are moving quickly to translate our advantaged position to capitalize on disruption in the retail sector to capture market share and drive profitable growth. Our growth strategy is focused on 3 areas where we see the greatest opportunity. First, we will win in our most important markets by extending rollout of market strategy, integrating Rack assets and further evolving our distribution capabilities. Second, we are broadening the reach of Nordstrom Rack by expanding our price range and better connecting physical and digital inventory. Third, we are increasing the digital velocity of our business as we grow the assortment, deliver personalization at scale and increase the linkages between the digital and the physical.

There are 4 key financial outcomes that we expect under our new model. First, we are going to accelerate revenue growth with opportunity to reach \$17 billion in sales over the medium term. Second, we are committed to expanding profit margin with potential to sustain 6% or higher EBIT margin going forward. Third, given our shift to a less inventory and asset-intensive model, we are targeting a significant improvement in ROIC. Finally, we expect to consistently generate more than \$1 billion in operating cash flow annually.

Before talking to you about how we are transforming our business for this new chapter, I want to spend a moment talking about where it all starts: With the customer and our principle of getting closer to you. We prepared a short video to highlight our customer experience.

(presentation)

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**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

To deliver on the growth potential we know exists across these areas, we have been evolving our business model. We're taking bold steps to redefine how we approach our customer. The principle of Closer to You is the beating heart of our strategy. It is the key to growing our business and is allowing us to unlock the full potential of the digital-first platform that we have built over the last several years. At its foundation is our market strategy. It is how we leverage our local assets of people, product and place to serve customers better, by linking our digital and physical assets at the market level. Our initial learnings per market strategy demonstrated that it is a powerful enabler of our digital-first platform, which is

why we now see it as our fundamental business model, one that we know will drive share gains while creating significant value for our key stakeholders. We rolled out this new approach ahead of the plans we shared at our last investor event in 2018.

Based on the strong results we have seen, we also began integrating Nordstrom Rack into the approach ahead of schedule. To date, we have rolled out our strategy to our top 10 markets, representing approximately half of our total sales. We are providing customers greater selection with, on average, 4x more product available next day and a one day reduction in shipping speed. Sales results, engagement and overall customer spend have improved in these markets. We have increased our customer counts by 20% and grown sales at a rate of nearly 200 basis points higher than other markets.

As we look at the evolution of the market strategy, we see opportunity to significantly extend the capabilities of the platform we have built, which is why we are expanding the aperture of who we serve and where and how we serve them. We will do this by generating deeper and more meaningful insights about our customers to enable improved personalization and inventory planning. This will allow us to attract new customers that we have not historically prioritized while not losing sight of our existing customers. It will also take us further in creating a truly seamless and interconnected experience, while extending our service leadership to create meaningful and personal connections with our customers. Across these initiatives, we see potential for us to drive \$2 billion to \$3 billion in incremental revenue over the next 3 to 5 years at high profitability and ROIC.

In support of our efforts to get closer to the customer, we're thinking differently about how we develop and use the insights we have about our customers, which is why we are orienting our entire enterprise around 3 key data planes: Customer, inventory and product. Through this, we are creating 360-degree views of our customer, of the products and services we offer and our logistical fulfillment of inventory. As a part of this, we know that to truly deliver on the potential of a significantly expanded assortment, we need to leverage our technology platform to create personalization at scale and translate our one-on-one service leadership to a one-to-many digital world.

Across our 2 powerful brands, we have incredible reach with over 35 million shoppers and more than 13 million Nordy Club members. However, we have recently engaged in a robust evaluation of our addressable market, and we see significant opportunity to expand the customer base that we serve. Today, we also have clear strength with the Nordstrom brand to serve high spenders. These are customers who look to luxury brands and high-end retailers for a premium experience, and approximately 30% of them shop with us today. From this base of strength, we can expand our focus to customers who are less brand oriented, but who seek out quality pieces that fit a specific style.

Today, we only engage with around 20% of these customers and capture an even smaller share of their wallet. At Nordstrom Rack, we have historically focused on trendy fashion lovers who are looking for great value with a high brand focus. Around 25% of these customers shop with us currently, but we have not prioritized price-oriented shoppers who look for deals and value first, where today, we capture under 15% of these customers. Across these 2 opportunity segments, we think we have 50% more headroom to grow customer penetration compared to our areas of historical strength.

Another critical element in widening the aperture of our business is our plan to significantly expand the assortments that we offer to our customers, from approximately 300,000 customer choices today, to more than 1.5 million over the next 3 to 5 years. We are doing this by building on the deep relationships that we have with the best brands, while also extending the strength of our own brands. To do this, we need to transform our approach to merchandising. In the past, we have operated from a mainly store-based model. We are now rapidly transitioning to a digital-first approach, a change accelerated by what we have seen in 2020. This means offering our broadest assortment online and using customer insights and enhanced capabilities to ensure we deploy the right product to the right place at the right time. To do so, we are embracing and expanding our ability to offer inventory that we do not own or possess, including drop ship, concession and revenue share with our brand partners.

This change is fundamental and over time, we expect traditional wholesale to make up 50% of our total sales, down from 85% today. We know that when we create an emotional connection, we win with our customer. And in today's environment, the bar is continuously being raised, requiring us to connect with customers on their terms to deliver great service. This requires us to marry 2 important principles: convenience and connection. Convenience comes from leveraging infrastructure to better serve customers how they want to be served. Connection means knowing the customer, being relevant and being able to personalize the experience digitally and in-store. We are in a unique position to provide this to our customers as it builds from the principle of service that is in our DNA.

So where do we begin? The reality is that this work is already well underway. In 2019, we rolled out our market strategy to our top 5 markets. In 2020, we doubled our market exposure. Importantly, we have accelerated rollout of this approach to include Nordstrom Rack, well ahead of plan. Looking to 2021, we plan to double this exposure again, reaching our top 20 markets. These markets make up approximately 75% of our current sales across 76 Nordstrom stores and 167 Rack stores. Over time, as our capabilities evolve, we fully expect our new approach to capture the vast majority of our customers and revenues. Overall, Nordstrom is in a strong position. We have successfully managed through the crisis and have become a more agile and flexible company. We are focused on driving profitable growth and gaining market share, and today, you will hear more about our plans to do just that. We are taking bold steps to transform our business model to get closer to you.

While this journey will take several years, we are well underway, and our organization is aligned like never before, with a clear strategy that will further differentiate Nordstrom. We have a laser focus on our areas of greatest opportunity and a continuing commitment to put the customer at the center of everything we do through our Closer to You business model.

Thank you so much. I'd like to now hand it over to Edmond to discuss how we're leveraging technology as a competitive advantage.

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**Edmond Mesrobian** - Nordstrom, Inc. - CTO

Thank you for joining us today. I'm Edmond Mesrobian, Chief Technology Officer. As Erik discussed, to deliver our Closer to You ambition, we need to unlock the potential of the digital-first platform we have built and continue to innovate on.

Our digital-first platform is an interconnected set of cooperative capabilities that allows us to deliver 4 key things: First, timely and relevant personalized customer experiences across our omnichannel touch points; second, support for our merchandising processes, partnership models and marketplace needs; third, the ability to optimize inventory and supply chain logistics to fulfill any product to any customer, at any location, at any time; and finally, empowering our employees with effective tools to deliver excellent service. These technology platforms create and leverage a unified view of our customers, our products and our inventory, the 3 core data planes we have built. This allows us to deliver insights directly into our applications and solutions, to support employee assisted and automated decision-making, by providing the right data at the right time.

Simply, our digital-first platform is unified by our core customer, product and inventory data planes and powered by the insights from our Nordstrom analytical platform. Furthering these capabilities is the key to enabling our entire organization to be agile, to move with speed, and to make the best possible decisions to serve our customers.

In 2018, we embarked on a significant project, to build our Nordstrom analytical platform, a foundational platform that allowed us to pivot away from a legacy data lake. Our data lake serves siloed, functional and channel-specific needs for ad-hoc reporting, analytics and decision-making. It was inherently disjointed from the real-time needs of the enterprise. With NAP, we have designed the platform from the ground up to be purpose-built for real time analytics using a structure and behavior inspired by human neurophysiology to allow us to sense and react to signals across all areas of the organization.

NAP's real-time event-based streaming and computing architecture enables us to send signals emitted across our connected, always on, digital-first enterprise. NAP transforms the signals via robust AI-based prediction models into business insights that are propagated and actioned across all physical and digital touch points. This platform generates meaningful predictions that can be leveraged by a truly connected enterprise to acquire new customers, to improve product assortment and selection, to optimize inventory deployment and fulfillment, to reimagine product discovery and to provide industry-leading service.

Our ability to develop and leverage deeper insights and predictions is key to unlocking the growth potential of the broader Nordstrom platform. This cuts across how we engage existing and new customers by allowing us to dramatically improve personalized product discovery and service. It drives our efforts to improve selection by giving us the tools to widen our product assortment, while maintaining the ability to evaluate the merit of every potential product. It allows us to improve service by giving our employees better tools and creating the ability to personalize at scale to get closer to the customer than ever before.

Let us take a closer look at our ability to leverage deeper insights to improve product discovery. Over the past 20 years, we have moved away from handcrafted taxonomies and keywords that have required customers to learn how to navigate our website and mobile applications. Today, we instead learn about and guide our customers through dynamic looks, style boards and product recommendations driven by more than 70 different machine learning algorithms.

Looking forward, our next steps will allow us to leverage natural language, image and video search to fully capture the magic of walking into one of our great stores in a digital context. We are evolving our product discovery to better embrace interactive and connected experiences by learning our customers' visual and conversational language. To do so, we need to relate our product choices to the customer and express them in a form that is context aware and customer friendly. We must maintain this ability to relate our product to our customers as we significantly expand product assortments and selection.

To deliver on these needs, we are experimenting with a new form of product discovery. This new approach combines natural language understanding and computer vision to develop a comprehensive and evolving fashion map of our entire assortment. This ties our product to its meaning beyond size, color, style and price. It allows us to differentiate a Vineyard Vines from one sold by Good American. When we combine this deeper knowledge of our product with our understanding of the customers' interest and behavior, we can truly help our customer discover product that matters to them.

In short, the bold plans we have to unlock the full potential of our digital-first platform are underpinned by and made possible only because of the work we have done, by building a strong interconnected technology platform unified by our core data planes empowered by our Nordstrom analytical platform. We are improving our organizational decision-making, agility and speed and delivering on our promise to get closer to you. These capabilities will continue to be a competitive advantage for us in the years ahead and are critical enablers of our plans to accelerate growth profitably. Thank you so much for your time today. Onward.

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

Thank you again for joining us today. I'm Pete Nordstrom, President of Nordstrom and Chief Brand Officer. Our unique merchandising approach has always been a core differentiator for us. This is especially true in a world where our customers are looking for brands they love and the discovery of new brands, all through a trusted source. Our merchandising capabilities have never been more important to our customers or to our brand partners who increasingly value deep collaborative relationships. We'd like to share with you how we're thinking about our end-to-end approach to merchandising to better meet both our customers and our brand partners' needs while driving increased agility.

In considering how we can enhance our capabilities, the customer remains at the center of the work that we are doing. Erik described how the way our customer approaches shopping has fundamentally transformed from discovery to delivery. That transformation was accelerated by COVID-19. What has not changed is the need to have great product that is relevant to each and every customer. It makes or breaks the relationship that we have with them. We are in the business of selling customers merchandise with an experience that makes them feel good and look their best. This is a concept that our merchandising organization has always understood. And we have a set of principles that define the key elements of a healthy assortment.

First and foremost, we are a multi-brand retailer that offers a broad range of quality products to appeal to our diverse customer base. We're also focused on consistently delivering newness at the right price with the right quantities, available to meet demand, where and when our customers want it. We also recognize our increasing responsibility to improve the impact our business has on the environment and the communities in which we operate. We are looking across our supply chain and committing to reducing our environmental footprint. One example is our commitment to reduce single-use plastics by 50%. We're also committing to delivering \$500 million in sales from brands owned, operated or designed by black and/or latinx individuals by 2025.

To give our customers the most relevant product offering, we're transforming our merchandising approach by leading with a digital-first mindset. As you previously heard from Edmond, technology is at the center of all this, presenting significant opportunity to do things differently. Our success will be defined by our ability to deliver on 3 key initiatives: First, shifting even faster to a truly digital-first approach to selecting and managing

assortments; second, optimizing the flow of inventory to better meet customer demand through fast and flexible fulfillment; and third, expanding our inventory partnership models to expand breadth and increase agility while limiting risk.

Let's start with what is perhaps the most important shift in our approach, the move to a digital-first model for assortment planning and management. This is a paradigm shift. Rather than curate an assortment by selecting the individual brands and items, we are aggregating a relevant offering from all available products from the best brands. At the same time, we are complementing that selection with our Nordstrom point of view, adding our context to the brands, trends and items we believe in for our customers. A great example is our home offering, which is of increasing relevance to our customers. In the past, we were constrained by around 1,500 square feet of space, allocating our stores, bound by trade-offs we had to make with other ways we could use that floor space. Taking a digital-first approach, we can determine the right level of customer choices by product category without being artificially constrained by other editing considerations, essentially creating an and rather than an or. In our home offering, we plan to triple our selection to reflect the best brands from bedding to office, all the way through to pet products. We see opportunities to grow our home business by 5x within the next 3 to 5 years.

Today in our total JWN business, our online selection is nearly 3x what we offer through our physical store selection. In the future, we see potential for our online assortment to be 20x what we offer in our stores. Our digital-first approach goes well beyond how we plan and buy our assortment. We are also focused on increasing selection by allocating inventory for both store and online demand in a given market. With the right amount of inventory in a market, we're then able to use our connected network to provide fast and flexible delivery for customers while increasing availability in stores.

For instance, for holiday this year, we allocated almost 60% of owned units to our stores based on our expectations for total market demand. This was almost 20 percentage points higher than if we had allocated product based on projected store demand alone. This approach allows us to achieve faster delivery for more customers with increased selection while improving shopability and increasing full-price selling. In fact, we see opportunity to deliver a low double-digit improvement in regular price selling with a significant reduction in clearance units over time. Being freed from the traditional constraints of brick-and-mortar retail also presents a unique opportunity to work differently with our brand partners.

We have 5 primary partnership models that we use: Private label and traditional wholesale, where we own the inventory; drop ship and concession where the vendor owns the inventory; and revenue share where the ownership of the inventory is shared. Extending beyond our traditional wholesale model allows us to increase selection, sharing risk and benefit with our partners. It also gives us additional agility and flexibility to adapt to emerging preferences and trends. These models also provide increased value for our existing partners to further strengthen our relationships while also allowing us to work with new and upcoming brands more effectively. We have had great success with drop ship.

During our anniversary event this year, over one quarter of our sales on Nordstrom.com were fulfilled via drop ship. Concession is a model that we use primarily with our luxury brands. This gives brands direct control of the merchandise offering, while gaining access to our customers. For us, this allows us to significantly enhance our assortment and customer choices in each location that has a concession arrangement.

Finally, we see significant opportunity for revenue share, where we can partner with brands using a more collaborative and less transactional approach, sharing both the risk and the benefits. Going forward, we believe we can significantly scale these models to support our plans to expand selection from approximately 300,000 customer choices currently to over 1.5 million choices. This means further evolving the mix of our business from 85% traditional wholesale to approximately 50% over time. One important opportunity we have is with our private label business, Nordstrom Product Group. We are committed to being a multi-brand retailer offering the best product in the world. We also see the significant value that Nordstrom-made brands bring to our customers by filling in gaps in our assortment while giving us more control over our merchandise selection. We offer Nordstrom-made products at both Nordstrom and Nordstrom Rack, where we know that we have an opportunity to increase availability of core items. To support the expansion of our own brands, we have significantly enhanced our capabilities, adding design talent to ensure that our brands remain compelling and developing processes to improve speed to market.

Some of our own brands are among the most sought-after by our customers, like Zella, which is consistently a top 25 searched-for brand on Nordstrom.com. Customers who buy Nordstrom-made product are extremely valuable. They spend 5x more than our average customer, make 3x more trips per year and make significantly fewer merchandise returns. As a result, the economics are favorable. In 2019, the gross margin rates of

our Nordstrom-made brands were 500 basis points higher than third-party brand product. Looking ahead, we see opportunity to increase our private label penetration from 10% of sales across JWN to 20% by 2025.

In closing, with the customer at the center of everything we do, we are truly transforming our approach. We are leveraging deeper insights to give the customer more choices while increasing relevance, we are improving the flow of inventory to support faster and more flexible fulfillment, and we are working with our brand partners more collaboratively. Ultimately, we believe our digital-first merchandising approach will dramatically improve the customer experience and drive stronger results.

Thank you, and now I'll join Teri for a panel discussion with our brand partners.

(Panel)

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Hello. My name is Teri Bariquit, and I'm the Chief Merchandising Officer here at Nordstrom, Nordstrom Rack. Over the years, Pete Nordstrom and I have had the pleasure of working with many fashion leaders in the industry. And we thought it would be a great opportunity to give you a little insight into how they work with us and some of their changes and objectives that they have on their radar. So joining Pete and me are leaders from some of the best brands in the fashion industry.

I would like to introduce Emma Grede, CEO and Co-Founder of lifestyle brands, Good American and Skims; Dick Hayne, CEO of Urban Outfitters, which operates a portfolio of global fashion and lifestyle brands; and Anish Melwani, North American President and CEO of global luxury group, LVMH, specializing in designer fashion and other luxury goods. A big thank you to each of you for joining us today.

To get our discussion started, I'd like to ask the group, why have distribution partners at all? You think about what does a retailer offer you that might be hard for you to achieve on your own? And then, Emma, I'll start with you. Given that you started out as direct-to-consumer, why have retail partners?

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**Emma Grede** - Good American - Co-Founder and CEO

It's so important. We launched Good American with Nordstrom on day one, right? And so for us, it was actually fundamental to being able to build a brand at scale from the beginning because we knew we had this 50-door platform to go into from day one. And thankfully, you guys were there to support us all the way through the brand journey. But I think it's more about the things that are outside of the traditional transactional relationship. This commitment that we together share to inclusivity, to diversity. And so I think it's wonderful that as businesses, we have charters. And of course, we're all very dedicated to what we're doing in DE&I. But the idea of actually working together on some of these initiatives to make them a reality of our business has been the added value beyond the transaction. And that for me is why Nordstrom has become such an incredible and important partner to us because we are able to actually see out the mission of our company in partnership with a much, much bigger organization. And that will actually completely tilt the balance beyond some of the other wholesale relationships that we might have.

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Thank you. Dick, for you, when you think about that question, why have retail partners? And what are the qualities that you look for? And how has that changed over time?

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**Richard A. Hayne** - Urban Outfitters, Inc. - Co-Founder, Chairman & CEO

Sure. Well, as you know, Free People started as a wholesale company. And so Nordstrom was one of our early, early customers. And it has grown considerably over time, as you know. I think that what we value in a partner is the reach, the customer reach and the overlap of the customer to

our preferred customer. The Free People customer is in her mid- to late 20s through mid-40s, is relatively affluent and loves fashion. And I think that, that's a direct overlap with the Nordstrom customer, and there are many customers that we would find either difficult or impossible to reach with our own stores and our own digital business. And so partnering with Nordstrom is a wonderful way to expand that reach.

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Thank you, Dick. Definitely, that information exchange in data is critical. Anish, when you think about the designer space, there's a lot that's changing the designer world and how you work with retail partners. Think -- can you speak more about how you're looking at that going forward?

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**Anish Melwani** - LVMH Inc. (North America) - Chairman and CEO

Sure. I think -- I'd say there's 2 big things that we look for in retail partners. The first, just thinking about physical reach, one of the things that's happened in the last year is we're seeing the luxury and designer fashion customer shopping closer to home. And so we've seen our business move away from the more tourist-heavy cities like New York and Los Angeles, towards where people live, be it Troy, Michigan or Nashville or Austin or Charlotte. And Nordstrom's footprint in these, believe that's going to continue. And so having a partner like Nordstrom with that kind of footprint is super helpful to us.

But I think more importantly, what we really value is customer intimacy. And your ability to understand the customers that are walking in your store and what they want, what they're looking for. And therefore, to help us understand that at that really local micro level. For us, we're fortunate as a big group that it's less about the financing of our inventory and in fact, we work with Nordstrom's in several models, from traditional wholesale through to full retail lease departments. But we're even exploring some hybrid models with you where even if we retain ownership of the inventory, we can still take advantage of your insights into your customer base to make sure we give them that discovery experience that's so precious.

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Great. Pete, aside from the brands and categories, which are fundamental to our business, what do you look for when selecting brands to partner with?

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

It's great having you guys here to join as we have some of these conversations. I think the biggest thing really starts with solving mutual problems and mutual issues. It's -- if it was just purely a transactional relationship, I think you would have that give and take where it's -- you're not trying to solve for a common problem. And I think increasingly, what we're learning is how much we need each other. And so the quality of those conversations is just a lot better.

So I think it really starts there, just understanding each other's issues and needs and how we can be a better partner for brands. We want to be the preferred partner. So we start by asking what that would take. What problems can we solve for them. And as you know, Teri, I mean it's -- there's usually so many things that we can talk about. And I guess what it really then comes down after that is the agility to be able to get after those issues so that they just don't take forever. It just doesn't bog down in all the bureaucracy. So some points have been made about how everything that we're experiencing is just really an acceleration of what we were working through a year or two ago is true but it's put a real premium on the agility, and I think the cooperation of how we work together. And it's probably been the silver lining, I think, of what's happened this last year is it's given us an opportunity to get more collaborative, less transactional and more like partners with our favorite brands.

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**Richard A. Hayne** - Urban Outfitters, Inc. - Co-Founder, Chairman & CEO

And if I could give a perfect example of what Pete's talking about, when the COVID hit, of course, all retailers, including ourselves, shut down the warehouse and didn't let any more product in because we had a lot of product that was on its way in, and we knew we were going to be over

inventoried. So we had a lot of product in the wholesale channel, and we're trying to find a way to get that to the end consumer, and we contacted Nordstrom. And we said we have some product here that you can put up on your digital platform, and you take the orders and we'll fulfill it for you. And you did that, and I think you benefited from it, and we certainly did.

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Go ahead, Emma.

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**Emma Grede** - Good American - Co-Founder and CEO

Yes. No, I was just going to say, I think the spirit of collaboration is something that we talk about so much, but my experience with Nordstrom is that it's been so clearly put on the table for us, right? I remember when I initially pitched the brand of Good American to you, Pete, and I was trying to explain that we had -- we were going to go sizes 00 to plus-size 24. And you said, "Yes, of course, we have a plus-size business." And I said, "Well, we don't -- we see it as one line. And we'd like it all put together in one space." And that was really a fundamental principle for our brand from the beginning, but not how you guys were doing business at the time. And I think just the openness of that conversation and discussing the challenges but then ultimately, we didn't feel like we needed to give up on a key principle to be able to be in business with you. In fact, it was the other way around. It was you guys, the big guys that said, "You know, Emma, we'll give this a go, like, we'll go for it."

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

No, that's great. And I would just -- I would add this spirit of collaboration and mutual problem-solving with each other, especially during COVID, none of us have the answers, but it was so great to be able to get on a call at any time and just talk about ideas and opportunities and how we can collectively win and collectively serve the customer. So I really do appreciate all of the partnership throughout the year. Emma, back on Good American and Skims, you've launched the brands with Nordstrom. Why choose Nordstrom to launch your brands? And how do you -- how has that influenced development of your brand? And what do you see in the future as you continue to scale?

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**Emma Grede** - Good American - Co-Founder and CEO

I see it as one of my best decisions ever, to launch with Nordstrom because it seems so modern and smart to launch a direct-to-consumer brand, but you never know what that's going to be right from the outset. One of the places that we find in Nordstrom, such a huge value-add is really in this idea of category development. And it comes back to something Dick was saying, this idea that you can talk to a group of merchants. Most of the time, these department heads at Nordstrom have been there for 20, 25, 30 years. So they have some experience on me.

But when you're a small company and you're looking at category development, the information that you guys are able to share with us. If we look at the launch of shoes, obviously, Nordstrom started the business in shoes. And for us to understand sizing and the widths business and what that really looks like at scale. It's just information that we don't have as a relatively small business. And so we have a kind of internal joke that we don't go into category development without speaking to Nordstrom. And actually, it worked for us on swim, it worked on shoes. It amazingly well in the activewear space. And so we keep a very, very close partnership to really understand what trends are you seeing. Oftentimes, I think, some of the best ideas have come from Nordstrom merchants that are just sharing what's happening in the business at large.

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**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Definitely, those launches have been a lot of fun. So thank you for those opportunities. If -- switching back over we've had a challenge -- it's a tricky responsibility and ongoing challenge of balancing the long-term trend, changes in customer behaviors. What are some of the things that you've thought about in balancing and prioritizing our partnerships over the years?

**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

I think what you can't do is get locked into a legacy way around practices generally. So what's happened is if we're more collaborative, if we're more transparent, it actually benefits us. I mean, I think we used to feel like we had this proprietary secretive information that we couldn't possibly share, but it feels like the more that we've been kind of open kimono on stuff as we collaborate, it really only comes back to benefit us. But I just think that we've learned that the value of having really powerful and capable brands, it just makes for such a richer offer for us and such a much more compelling offer for customers. I have found that we have a lot more in common than we have difference.

**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

What's your confidence in Nordstrom and growing with us?

**Richard A. Hayne** - Urban Outfitters, Inc. - Co-Founder, Chairman & CEO

There's no question about it. You have an obvious store channel that you have build-out. You have a very strong and robust and vibrant digital channel that you've built and are built -- continue to build. And you also have Nordstrom Rack. And if we just look at the Rack, for instance, we believe that the Rack is one of the elements that lets our -- creative design team and our merchandisers in the wholesale area be more creative because it gives us confidence that there's a place for it if it doesn't work out exactly like we thought it might on a full-price basis.

**Teri J. Bariquit** - Nordstrom, Inc. - Chief Merchandising Officer

Great. Well, I want to thank everyone as you so much for participating today. Really, really great conversation, and I wish you all a great rest of the day. And for everyone else out there listening, enjoy the rest of the program. Thank you.

## PRESENTATION

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

Thank you for joining us today. I'm Kenneth Worzel, Chief Operating Officer at Nordstrom. And in my role, I support our customer-facing business teams, including the Nordstrom and Nordstrom Rack store teams as well as our digital teams.

I've spent the last decade at Nordstrom working with our teams to build out our digital capabilities, to ensure we can serve customers seamlessly whenever and wherever they want to shop with us. And I'm excited to share with you today where we're at on that journey and how we're thinking about the next couple of years. At its core, unlocking the potential of our digital-first platform is about delivering enhanced discovery, convenience and connection to our customers, which allows us to be more responsive to their needs. And we're starting from a strong foundation. We've been serving customers digitally for over 20 years. And we're an early leader in connecting our customers' experiences across all of our digital and physical assets. We currently serve 14 million customers in our digital channels and we're on track to generate \$5.5 billion in sales in our digital businesses in 2020.

This year, we reached an important milestone, with more than half of our sales coming through digital channels. And we expect the majority of our sales to be digital as we move forward, even as store revenues recover. Also in 2019, 50% of our digital demand came through mobile devices. And we expect that number to be approximately 70% in the coming year, which reaffirms our capability to serve our customers seamlessly in this hyperconnected world that we all live in. Importantly, for our Nordstrom brand, as we shared with you in our last Investor Day, we achieved comparable margins regardless of channel. And over the next several years, we expect to achieve margin parity across our physical and digital channels in our Rack business as well. We've continued to invest to ensure that we're meeting evolving customer needs with a focus on increasing the connectivity between our digital and physical assets because our customers aren't digital or store customers, they're JWN customers.

Our early leadership and continued investment in digital has served us well. And as we look to the future, we are accelerating the velocity of our digital business with a sharp focus on delivering personalized experiences to win with each customer. Our goal is to make digital personal with discovery supported by a broad product assortment, convenience, powered by our market strategy and connection via our people and experiences. This starts with discovery, translating the model we've built in stores to our digital channels.

For much of our history, we supported discovery and built connection one-to-one via our salespeople in stores. In today's digital world, we're scaling discovery and connection to be one-to-many via data and technology. Beyond discovery, it's critical, indeed, table stakes in today's world to deliver on convenience, having the right product in stock with the ability to fulfill quickly and in whatever way the customer wants. And as Erik highlighted, our market strategy gives us the backbone to win on convenience given that we have assets of people, product, and place geographically close to our customers.

But to truly differentiate, we must deliver on great service, which comes from going beyond convenience to building real connection with customers. As with discovery, this is about translating what we already excel at and have always excelled that in-store to a digital context. When we look at the competitive landscape, we see a significant opportunity. No one is yet winning on digital discovery in our categories. And we believe that we're uniquely positioned to do so given our assortment breadth and depth, as well as the customer data we have to help us make discovery relevant for each individual customer. As Pete discussed earlier, our merchandising approach continues to evolve to reflect our transformation into a digital-first business. This has included significantly expanding our product assortment from the world's best brands with the intention to continue to grow customer choices 5x in the next few years. Our customers want and expect us to offer them the fullest expression of the world's best brands, but it's not enough to simply offer more choices. We need to be better at offering customers more of what they want at an individual level. We need to leverage a broader product assortment, but we also need to translate it into a curated and personalized shopping experience for each customer.

As Edmond discussed, our data insights and digital capabilities allow us to deliver this kind of personalization at scale, increasing conversion, driving sales and improving customer engagement. Our customers don't view themselves as store or digital shoppers or only as Nordstrom or Nordstrom Rack shoppers. They see us as one company. And they expect to be able to engage with us seamlessly across all of our touch points. To fully deliver on our promise of convenience, we're developing new tools and capabilities to address points of friction and to ensure an exceptional experience for our customers. We now have full integration of inventory across our entire JWN platform. This is a powerful way to grow our assortment without taking on any additional inventory risk.

Most recently, by integrating inventory in Nordstrom Rack across our physical and digital channels, we've increased customer choices by tens of thousands for our digital customers and increased the inventory dollars supporting our NordstromRack.com business by more than 50% without purchasing a single unit more of inventory. We have also connected all of our 350-plus physical locations across our 2 brands, Nordstrom and Nordstrom Rack. So now customers can pick up and return product anywhere across our network with a frictionless experience. And we're seeing customers respond with customer satisfaction scores for order pickup experiences in the 90s. We know that customers value a seamless experience with us across channels. And indeed, when they shop with us across store and digital channels, their spend and customer lifetime value goes up 5 to 7x versus single channel customers. And similarly, spend and customer lifetime value goes up 3 to 4x when they go from shopping either Nordstrom or Rack alone to shopping both brands. We are focused on connecting with our customers by providing them with the level of service that they desire, from low touch to high touch and everything in between. This is something we've done historically really well in stores.

But in today's world, we need to also be able to do it digitally. In our digital business, we've added capabilities to replicate the in-store discovery and service experience that customers expect. For example, we offer Dynamic Looks, which provide customers with full outfit recommendations based on their search and purchase history. Customers have responded incredibly positively to this feature with a customer satisfaction score of 90 and attributed sales growing in the triple digits year-on-year. Another example is salesperson videos, leveraging our salespeople to provide styling and product advice. We produced over 40,000 videos this year and nearly 25% of Nordstrom customers engage with salesperson videos in the last year, with conversion rates nearly 2x versus customers who didn't engage with salesperson videos and with higher spend, more trips and lower return rates.

We're also enhancing our ability to engage with customers digitally outside of our platform. On Instagram, for example, we now have the capability for our own stylists as well as independent influencers to add a link to a post featuring shoppable Nordstrom product. This allows customers to

click on a link and have the items added to their bag on Nordstrom.com. Since we recently rolled this out, we've seen more than 80,000 links created. And while we're in the early innings with this feature, we see significant opportunity as we drive higher adoption, particularly amongst our own stylists. So what does a meaningful personalized experience look like for a customer?

Personalization is more than customer discovery aided by better recommendations of relevant products. Personalization is more than convenience provided by neighborhood Nordstrom locals or self-service contactless shopping journeys. Personalization is even more than VIP access to amazing customer service. Personalization is all of these journeys, brought together into a seamless whole that addresses and anticipates how customers prefer to shop and offers them the most relevant product and services for them. Shopping and service brought closer to you by knowing the customer. To do this, we need to know our customer and fully leverage what we know about them to create a shopping journey that recognizes who they are and what they want, helping them to feel good and look their best.

A recent example of progress in this area was during this past year's anniversary event. We introduced a new preview feature that allowed our customer to browse product and add it to their wish list even before the event started. We had nearly 1 million customers use this feature for the event, 50% of which have never used our wish list functionality before. And the customers that used the feature had average order values 45% higher than nonusers and converted at 5x the rate of customers that didn't use the feature. We're further enhancing this and other capabilities going forward to make them even more personalized for each customer.

Over the past several years, we've been on a journey to increase the connection between our digital and physical assets, while also delivering a personalized digital experience and driving scale across our business. At the heart of this is our Nordstrom analytical platform and our JWN e-commerce platform, both of which enhance our ability to serve up personalized content to customers and develop insights to inform decisions across our entire organization. This is critical, an enabler of our strategy, and it sets the stage for where we go next, which is to have even more products available to our customers, while simultaneously getting more targeted and more personalized in how we merchandise our offering at the individual customer level.

Moving from a site, merchandise for everyone to a digital experience, merchandise just for you, we are scaling our digital-first platform across the business, which enables us to deliver a better customer experience and drive better financial outcomes, including topline and return on investment. Thank you.

Before I turn it over to Geevy I'm really excited to share with you this video about Nordstrom Rack.

(presentation)

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**Geevy S. K. Thomas** - Nordstrom, Inc. - President of Nordstrom Rack

Thank you for joining me today. I'm Geevy Thomas, President of Nordstrom Rack. I've been with Nordstrom for 37 years, and I've supported the Rack business for the last 10.

Before going into the details of our strategy for Nordstrom Rack, I want to take a moment to reflect on what makes Rack truly differentiated both to customers and the brands we partner with in the off-price space. It starts with our company's business model with our 2 powerful brands, Nordstrom and Nordstrom Rack and how this combination allows us to deliver an experience to customers that's unlike any other.

First, our end-to-end JWN buying organization creates an unparalleled buying power. At Rack, it means we can deliver brands our customers love in season faster than our competitors. Second, we have an unmatched digital presence in the off-price space, which means we're the only off-price retailer with a full transactional digital and physical ecosystem. We're able to engage with more customers and more waves and drive scale with less risk and lower capital intensity than our store-based competitors. We have a strong foundation and a compelling value proposition for customers.

Our product offering is unlike any other given our ability to partner with brands in a way no one else can. We can get relevant in season products sooner than our competitors. We're also driving exceptional value by maximizing each stage of the items' life cycle as it moves from Nordstrom to Nordstrom Rack. Our digital presence is unmatched. We're the lone player with scale in digital and mobile. We invested early in this space with the

acquisition of HauteLook, and we've translated that \$200 million investment into a \$1.4 billion plus digital business. As we move forward, we'll sunset the HauteLook brand from a customer perspective, while continuing to offer flash events that our customers love under the Rack brand. And we have a high-quality store footprint in attractive locations. These not only serve customer shopping in-store needs but also support fast, cost-effective fulfillment of online purchases.

Through this value proposition, we have a large and growing customer base, not only for Rack, but for our overall company. After all, Rack is our #1 source of JWN customers. This compelling value proposition has translated into a strong track record for growth over the last 5 years. We've acquired more customers and increased our revenue contribution to the overall business. Over that same time frame, we've leveraged our leading online presence to increase our digital penetration to 25% in 2019. That's accelerated to 38% of total sales in our most recently completed quarter.

We expect this trend to continue as consumers become increasingly connected in mobile. Building on our strong foundation, we have a significant opportunity to drive growth in the Rack business. We're widening the aperture of who we serve and where and how we serve them. This allows us to increase engagement with our core customers while also taking steps to attract a broader customer base. Ultimately, we see an opportunity to increase revenue at Rack by \$2 billion over the next 5 years with a focus on 3 key growth drivers: First, we'll expand our offering to ensure we're delivering an assortment that's relevant to a wider set of customers while deepening our offering for our core customers; second, we'll enhance our capabilities through technology to achieve personalization at scale as well as fully leverage inventory across the JWN platform; and third, we'll create a truly seamless interconnected experience across JWN by fully integrating Rack into our market strategy.

At Nordstrom, everything starts with the customer, as Erik shared with you earlier, we've created organization-wide customer segments with a focus on serving price in brand oriented shoppers in our Rack business. Traditionally, Rack has had a strong ownership of a core group of customers who are trendy and fashionable who love designer brands, but still want a great deal. We'll maintain and build on this leadership position with this group of customers. Our segmentation work surface an opportunity to better meet a wider array of needs, particularly for those who prioritize price. This opportunity is meaningful. Our share with these customers today is half our share with our core brand-focused customers.

To get after that, we're dramatically expanding our price-driven offering in select locations, using a data-driven approach based on demographic and store level metrics, we repositioned Rack store fleet into 3 groups. Price stores, which distort to a lower average selling price assortment and price-driven merchandising approach. Brand doors, which are largely unchanged from the traditional rack store offering. And hybrid doors, which will have a broad appeal with a mix of brand and price-focused products. To bring this to life, here's a look at how we've repositioned the 14 stores in our New York market to include price hybrid and brand doors to best serve our customers.

Across North America, approximately one third of our stores are now price stores. We'll expect our average selling price will decline. The outcome of this strategy is that we expect to drive significant revenue growth as we acquire new customers, drive incremental traffic trips and increase our transactions. We started this work in fall of 2020, and we're encouraged by early signals from our repositioned doors.

Longer term, we see the potential to expand our store footprint with additional price stores in new markets. We will continue to invest in our current categories of strength, including being the leader for shoes in the off-price market. We also see meaningful opportunity to expand our assortment in high-growth categories that our customers are voting for. These include beauty, home, kids and active. Today, these categories make up 20% of Nordstrom Rack sales. Over time, we expect to see our sales double in these categories. By leaning into high growth categories, we believe we'll drive share of wallet, trips and store traffic, giving us more reasons to be the first choice for our customers.

Migrating NordstromRack.com to the JWN e-commerce platform is also critical to deliver on our promise of convenience and connection as it allows us to unlock capabilities to deliver a more relevant and tailored digital experience. As Pete discussed, our digital-first approach to merchandising will allow us to offer the broadest assortment online and appeal to a wider range of customers. As Edmond touched on, we're also enhancing our capabilities to tailor the shopping experience based on what we know about our customers. We know past purchases, engagement with our stylists and salespeople and their preferred brand, sizes and colors. By creating an individualized digital experience, we'll drive more transactions, higher conversion and ultimately, higher sales.

With the continued shift of customers online, we expect to grow digital penetration to 45% over time. We expect not only to drive topline growth, but also margin expansion as we better generate leverage on our digital sales. We see opportunity to improve efficiency with an eye to bringing

digital margins more in line with brick-and-mortar margins over time, similar to our Nordstrom business. In October, we also extended product availability through a shared view of inventory across the Rack business. This created the ultimate treasure hunt by giving customers access to inventory across all our digital and physical assets. By enabling this capability, we've grown selection by 20% without purchasing an additional piece of inventory. And leveraging ship from store, we can get product to our customers one day faster.

When we rolled out shared inventory at Nordstrom, we saw an almost 10% lift in spend, lowered inventory by roughly 5% and improved inventory turns by more than 10%. Through reduced markdown activity and enhanced fulfillment efficiency, we see further opportunities to increase our profitability.

As Erik said earlier in the day, to win with customers, we need to fully unlock the power of our platform across all our digital and physical assets. A critical element of achieving this is fully integrating Rack into our market strategy, which has become our go-to-market blueprint. In 2020, we made meaningful progress, and we're well ahead of our initial plans. This included bringing key elements of the Nordstrom service experience to our Rack customers such as store fulfill, ship to store and returns across all JWN stores. It also allows us to further differentiate us from off-price pure players who cannot build these capabilities given their limited digital presence. We've seen strong engagement with these services as we've rolled them out. For store fulfill, just over 20% of NordstromRack.com orders have come through store fulfill in the initial months, and we see more runway ahead. As a reference, at Nordstrom.com, that number is roughly 30%. Ship to store drove 10% lift in new customers and 20% of customers using this service made an incremental in-store purchase when they picked up their order.

Looking ahead, we plan to further enhance the customer experience by bringing our Rack customers expanded order pickup options and shared in-market inventory in 2021 and 2022. We expect these efforts to drive new customers, more trips and higher average transaction size.

To wrap up, I'm incredibly excited for what lies ahead for the Rack business. We have a strong foundation and a track record for growth, and we're only getting started. There's a significant opportunity to add an incremental \$2 billion to our topline over time. We're focusing on widening the aperture of who we serve and where and how we serve them. We'll do this by leveraging deep insight to deliver personalization at scale and fully integrating Rack into the JWN ecosystem.

We'll now take a short 5-minute break before returning for a fireside chat with Erik, Pete and our Chairman of the Board, Brad Smith. Thank you, again, for your time and attention.

(Break)

(Panel)

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**Neely Tamminga** - *DISTILL - Co-Founder*

My name is Neely Tamminga, and we are so pleased to have Brad Smith, Nordstrom's non-Executive Chairman; Erik Nordstrom, CEO; and Pete Nordstrom, President and Chief Brand Officer, with us here today. Why do you believe Nordstrom will be successful in this unique moment of disruption?

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**Erik B. Nordstrom** - *Nordstrom, Inc. - CEO, Principal Executive Officer & Director*

Well, I would start first and foremost, with our people, the culture of our place, that focus on the customer. That allows us and motivates us to be a place of action versus a place of reaction. And I think that's played out in the investments we've made these last handful of years. COVID, while certainly disruptive to our industry and our business, the change has not come out of left field. It's really been an acceleration of changes that have been in place for some time. The shift to e-commerce, the importance of store services like buy online, pick up in-store and curbside services, virtual styling. These things that we've been investing against, we're excited not that we kind of came out the other side of the financial crisis that came with COVID, we're excited, mostly of the strategic progress that's been made and the capabilities we have today and that are coming live in the next 18 months or so that we think have just been clarified in the importance of, these last several months.

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

What we're trying to do is bring the best of what the idea of a department store was, and that was having a great selection of products that customers value and covets with excellent service. It's just the how has really evolved and changed. And so we can't be bogged down or caught up in the legacy practices, we got to think about new and better ways. In a lot of ways, that's been super invigorating, I think, for our company to lean into how to redefine what that means. And so it's about bringing the digital and the physical together in a way that serves customers best. And I guess, if that's a competitive thing, we're up for that challenge.

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**Brad D. Smith** - Nordstrom, Inc. - Independent Chairman of the Board

I'm confident in Nordstrom's future because it begins with mindset. While many other companies were thinking about reopen, the Nordstrom team was thinking about reimagine and reinvent. If you think about market disruptions accelerating the secular trends, as Erik talked about, companies really are left with two choices. They can act or they can react. And Nordstrom has always chosen to act. They were investing in digital assets and store fulfillment long before COVID required it. They were working on diversity, inclusion and belonging, long before the 2020 events reminded us of the social inequity and this racial injustice that persists all around this. And by the way, this track record is more than a century long. Nordstrom has always acted and always adapted and always reimagined and reinvented itself while preserving the core along the way. And that's why this company is coming out stronger and better than we were going into 2020. And as a Board, we are excited about the opportunities that we see ahead.

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**Neely Tamminga** - DISTILL - Co-Founder

How would you reflect the role of relationships and resiliency between both the Board and the leadership team?

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**Brad D. Smith** - Nordstrom, Inc. - Independent Chairman of the Board

As challenging as the events proved to be in 2020, Nordstrom entered the year battle tested and ready. The Board and the management team had navigated circumstances that require complicated and sometimes difficult conversations and choices. If you think about it, the company has proactively driven transformational change over multiple years as the retail sector has been under intense disruption. We also deliberated and came to a conclusion after looking at a potential go private proposal that we were committed to being the best world-class public company that we could be. And of course, we also dealt with the tragic and unexpected loss of our beloved CEO; and Pete and Erik's dear brother, Blake. But it was these events that created a force that enabled us to stay aligned and to navigate through the challenges of 2020, and they enabled the management team to take those challenges and transform them into strategic opportunities to differentiate Nordstrom as we look ahead.

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**Neely Tamminga** - DISTILL - Co-Founder

How has the Board been most helpful to you?

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**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

One thing that happened, we greatly increased the frequency of being together at the Board. We had weekly calls. And that helped me and Pete a lot in that so much of this is new and to have such successful executives who were going through similar things and the real sharing of knowledge of navigating these tough situations. But it also -- I think an unintended outcome of it was increasing the trust and transparency we have. With that frequency of contact, we -- everything is on the table. And it's -- that's continued to today, that transparency and I think alignment.

**Neely Tamminga** - *DISTILL - Co-Founder*

This question is directed to Brad. You spent 35 years of doing and leading and now you're solidly in a season of governing. What does that look like, the difference between governing and leading?

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**Brad D. Smith** - *Nordstrom, Inc. - Independent Chairman of the Board*

Yes. The responsibilities of leading a company as a CEO are clearly different than the responsibilities of governing a Board as a non-executive chair. And I assure you that we consider it a privilege to have such talented operating executives leading Nordstrom on a day-to-day basis because that enables me and the Board to focus on being a talented, a diverse and a high-functioning board that is here to oversee, advise and support the management team. And we have put the energy into purposely building that kind of a board. And I'm proud of the mix of tenure we have on the Board. We have a mix of those who've served with us for years and those who've joined recently.

Our average tenure is about five and a half years. I am very proud of the mix of gender and ethnic diversity. 45% of our Board are women, 27% black. I'm really pleased that we have the kinds of skills that we need as we look to the future and a digital-first retail economy. And so we have the right kinds of skills, and it pays off because the management team taps into the board on a regular basis. As Erik said, we upped our frequency through COVID, but in between meetings. Management reaches out to Directors, seeks advice, scrimmages a strategic issue or invites a Board member to speak to employees about real-time issues like social and equity or racial injustice. And I think it's a combination of having the right skills in the room, the right collaborative environment, that high degree of trust and the fact that we're all focused on the same thing, which is making Nordstrom a world-class public company that really brings it all together.

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**Neely Tamminga** - *DISTILL - Co-Founder*

Companies and their leadership teams are being asked by stakeholders to take very active steps in improving pathways towards diversity and inclusion. How has Nordstrom answered that call?

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**Erik B. Nordstrom** - *Nordstrom, Inc. - CEO, Principal Executive Officer & Director*

We learned long ago that if we're going to be an inclusive place that's welcoming to all customers, we first have to be a place where all people can come and work and be successful by bringing their whole selves, their best selves to the job. And that's a journey I don't think that's ever over. There's a lot of self-reflection over the events of the past year. And we've tried to take that on, again, of staying true to our values of being inclusive and being a place that respects our customers and respects each other and I mean, doing a lot of listening. And I believe strongly, we're a better company today because of it.

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**Neely Tamminga** - *DISTILL - Co-Founder*

Companies and their leadership teams are also being asked to take active steps towards mitigating climate risk. Maybe help us better understand Nordstrom's sustainability mindset, not just in their long range planning, but in how they make their decisions on a day-to-day basis.

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**Peter E. Nordstrom** - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

The sustainability agenda is more kind of completely integrated into a business agenda. And I think it's important that we reflect on the values of our company, the culture of our company and our brand ethos and if we don't stand for something, we stand for nothing. And so I think it's important that we embrace the issues in the interest of our customers in an authentic way. And that -- when we can do that, that can be a really big competitive advantage.

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**Neely Tamminga** - *DISTILL - Co-Founder*

What is the Board's approach to succession planning? And how do we think about this dynamic between internal talent development and also looking to external recruitment in that process?

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**Erik B. Nordstrom** - *Nordstrom, Inc. - CEO, Principal Executive Officer & Director*

Well, I'm not sure there's a more important role for the Board than deciding what the company's leadership is. And that's something we embrace and work in lockstep with the Board on. And having the right leadership and having effective succession is one of the most important responsibilities we have. So how to do that? The Board has a lot of experience in that, different companies and bring best practices to the table that help us quite a bit. Pete and I see as our responsibility is to develop that internal talent, to have that. But what goes with that succession planning is identifying the future, not using the rearview mirror but looking forward, where is the world going and what does this company need? And this is a team sport. We always look at our teams and our executive team, in particular, on how do we have, not just the most capabilities, but diverse capabilities that create a synergy.

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**Brad D. Smith** - *Nordstrom, Inc. - Independent Chairman of the Board*

There is no more important responsibility for a board or for a management team than to get succession planning right and to make it an evergreen process. And the management team takes this responsibility seriously as does the board. Every quarter, we engage in a discussion around our talent and bench, we review the important metrics around diversity, inclusion and belonging, and we talk about what we need to do organizationally to ensure we've set ourselves up to execute the strategy for the future. In addition to that, once a year, we have a rigorous succession planning process where we invite an outside third-party to come in and work with the management team and the Board to not only calibrate and test our internal talent and think about development plans that will help them get ready for the next position, but we also test our talent against external market candidates and make sure that we have our eye on the horizon for both internal and external opportunities. This is something that the Board and the management team takes very seriously. And I think the proof is in the pudding when you look at the great talent that the company's continue to cultivate as well as the mix of new leaders they brought in from the outside.

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**Neely Tamminga** - *DISTILL - Co-Founder*

How do you think about the responsibilities of a corporation in balancing the company's responsibility to deliver value for its owners but also in balancing the responsibility to have purpose in this world?

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**Erik B. Nordstrom** - *Nordstrom, Inc. - CEO, Principal Executive Officer & Director*

Well, I think for a retailer, in particular, the connections between the stakeholders are very clear. We are a public brand and our reputation with customers is influenced by our reputation with shareholders and our reputations in the communities we serve. And our reputation with customers is influenced by our -- heavily influenced by our reputation as an employer. These things are all tied together. And we've always believed that and have embraced that. We're sensitive about our reputation of being an inclusive place as an employer, where diversity, inclusion and belonging are not buzzwords in response to an issue, they are values that we live each and every day. We're sensitive to what kind of what workplace we are. And as the world has become more transparent, and the power of things like social media, that -- and I think the growing expectation from all stakeholders, certainly, customers and employees and our communities but very real of shareholders that you do the right thing. And defining what the right thing is changes, but that expectation is more explicit than ever before, and it's -- we don't always get it right, but it's something we embrace.

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**Peter E. Nordstrom** - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

We really don't have any chance of being successful if we don't bring that authenticity about who we are and how that shows up with the way we treat each other and the way that we treat customers. So again, it gets back to kind of the cultural DNA of what could be a really -- and is a big

enabler for us. And that is that authenticity, that trust and that integrity that cuts across the company. I mean no doubt about it, our biggest kind of secret sauce and enabler to be successful is the quality and commitment of the people that work here at Nordstrom and the personal buy-in that they have, and that's real. And customers can see it and they can tell, and that's why a lot of customers love Nordstrom and we take that responsibility seriously and try to continue to earn that every day.

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**Brad D. Smith** - Nordstrom, Inc. - Independent Chairman of the Board

A brand is not what you tell a customer you do. A brand is what a customer tells our friends and family members you do. And Nordstrom has always understood that, and they've always set the bar high to ensure they were living up to those aspirations and those ideals. And by the way, good investors, good owners want to invest in companies that try to create a culture where they can attract the top talent who work every day to do the best they can for the customers and the communities they serve. And that's now being reflected through the business roundtable manifesto that was published last spring, and this is the responsibility of all public companies. It's reflected in institutional investors in the open letters they're publishing saying we only will invest in companies that understand that all stakeholders matter.

And the good news is Nordstrom has known that from day one. They live it, they walk the talk, it reflects in everything they do, every experience they create, and we clearly take this responsibility as one of the first things and the things that we talk about in every one of our Board meetings, whether we measure the environment, social and governance objectives, we measure diversity, inclusion and belonging objectives, we measure financial objectives. They are all equally weighted in our conversations.

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**Neely Tamminga** - DISTILL - Co-Founder

How does the Board come alongside leadership to ensure alignment and accountability?

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**Brad D. Smith** - Nordstrom, Inc. - Independent Chairman of the Board

Well it begins with what you heard Erik and Pete talk about, the north star, which is the customer. We've always believed in the boardroom, that if you don't understand your customer, you can never hope to deliver quality or excellence. And to truly understand your customer, you have to reflect the customer and the communities that you serve. And Nordstrom wants to set the bar and set the standard for excellence and all that it does: Environment, social, governance, diversity, inclusion, belonging, financial goals. We have to walk the talk. We need to role model the example that we want to see. And that's why that diversity of the Board that I've talked about a few minutes ago is so important to have the ethnic diversity, to have the gender diversity, to have the skills and experience that we need so that we can set the example and work with the management team to help them deliver the goals that they strive to deliver every day.

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**Neely Tamminga** - DISTILL - Co-Founder

Great answer. Thank you so much for your time again today, gentlemen.

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## PRESENTATION

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

Thank you for the time today. I'm Anne Bramman, Chief Financial Officer of Nordstrom. I'm pleased to have some time to talk to you about how our new direction will translate into improved financial outcomes and create significant value for our stakeholders in the years to come. Before diving into these details, I want to take a moment to discuss our environmental, social responsibility and corporate governance priorities. The work that we have been doing to maintain high corporate governance standards is a critical enabler of our strategies and ensures that we have strong oversight, aligned management incentives and appropriate mitigation of the risks inherent in our business.

To that end, we have emphasized a regular review of the Board to ensure that we fulfill our targeted skill and diversity goals. Currently, 9 of our 11 directors are independent, 8 of whom are new to the Board since 2015. When selecting new board members, we seek out broad and complementary skills from business-minded executives, preferably with experience in a consumer-oriented industry, who will push the thinking of the Board and supplement its diversity. Our Board today reflects a highly diverse skill set with significant gender and ethnic diversity. Roughly half of our directors are women and approximately 30% are black. We know this is of critical importance when considering the changes our industry is undergoing as well as the expectations of our customers and our employees, who are increasingly looking for purpose-driven companies that live their values and have a positive impact on the world and their communities. Having a positive impact is a principle that has defined Nordstrom since its founding, and we are striving to meet or exceed our stakeholders' expectations and deliver on our core intention to leave it better than we found it. As Erik and Pete shared, we have more visibility than ever into our impact our business has on the environment and the communities we serve.

As we look towards the next 5 years, we've expanded our corporate social responsibility mandate to focus on 3 priorities: Environmental sustainability, human rights and corporate philanthropy. As an organization, we're also committed to increasing demographic diversity in all corporate and leadership positions to better reflect the North American population. This includes increasing representation of black and latinx populations by at least 50% in people manager roles at the mid and senior levels by the end of 2025. However, our commitments extend beyond our people to the customers that we serve. We have long had a customer Bill of Rights which explains our 0 tolerance policy for discrimination of any kind in our stores. We are revisiting our practices and the training resources we offer for customer-facing roles to ensure that they include anti-racism and anti-bias content.

To be successful in these initiatives, we must build diversity and inclusion into our leadership expectations. And we'll measure our leaders on their performance in this area across the organization. As you can see, we've put in place policies and made strong commitments to ensure that our organization is managed with the long-term needs of our stakeholders at the forefront. As Erik, Pete, Ken, Geevy and Evan have all highlighted over the course of the day, our organization is aligned and focused on accelerating profitable growth with clarity on our areas of greatest opportunity and a commitment to executing on a new playbook for how we will unlock the full potential of our digital-first platform.

Now I'd like to discuss how our strategy will translate into improved financial results with a focus on creating value for our shareholders. At its core, there are 4 critical elements for the financial outcomes that we will deliver under our new model. First, we are pivoting to market share capture and profitable topline growth; second, we are committed to expanding profit margin; third, given our shift to a less inventory and asset-intensive model, we are targeting a significant improvement in ROIC; and finally, we expect to generate more than \$1 billion in operating cash flow annually. This new direction is possible because of the comprehensive approach we've taken to reconsider all elements of the organization, from how we think about our 2 brands, Nordstrom and Nordstrom Rack, how we use our technology and how we approach our capital investments.

Much of this work is already underway, and we have clear evidence that this new way of approaching our business is improving engagement with our customers and helping recover revenue and profitability as underlying demand conditions improve. While the crisis is not over, we are increasingly optimistic about a post COVID recovery as vaccine rollouts continue. We have already seen our revenues improve sequentially each quarter since the reopening of our stores in the second quarter.

We see 3 primary revenue drivers for the business going forward. First, recovery of revenue lost to COVID-19. While the timing and pace of the ultimate recovery remain uncertain, we expect \$3 billion to \$4 billion in incremental revenue from 2020 levels with roughly 2/3 of that coming in 2021, assuming our stores remain open. Second, we will be executing our 3 growth priorities which support an additional \$2 billion to \$3 billion of annual revenue in the medium term. And finally, building off this base, sustainable low single-digit percentage growth as we leverage and scale our platform. When we think about our opportunity, our new model will enable us to drive revenue while improving EBIT margin for a given revenue level in the years to come. Over the long term, while extending our partnership models away from traditional wholesale may have an impact on our overall gross margin rate, we expect improved EBIT margin for the business as a whole with the opportunity for sustained EBIT margins of 6% or more.

While we are not giving specific long-term revenue and earnings guidance at this time, we thought it would be helpful to show how the evolution of our financial model will lead to different financial outcomes for a given level of sales. In fact, as a result of rebasing our cost structure in 2020, we can generate 2019 EBIT margin on \$1 billion less in revenue. If we achieve revenue levels comparable to 2019, our EBIT margin is expected to exceed 6%.

I'd like to talk a bit about our SG&A structure as one component supporting our long-term margin expectations. When we went through the process of rebasing our cost structure this past year, we did so with an eye towards digital and Nordstrom Rack as key drivers of future growth. This is why roughly 75% of the savings in 2020 are permanent and will flow through into 2021 while continuing to reinvest in the business, largely in technology and supply chain capabilities to support our business model transformation. We expect a meaningful reduction in the capital intensity of our business as we extend our platform. This includes lowering our working capital requirements as we expand partnership models for the brands we sell. Our CapEx requirements will also be lowered when compared to recent years when we were making our generational investments. Ultimately, we expect our new model to support ROIC in the low teens in the years ahead.

Importantly, our incentive programs are aligned in delivering on this new model. And we are holding ourselves accountable to both improving operating profit as well as increasing ROIC for the business. Extending the analysis of the two revenue scenarios, at \$14.5 billion of revenue, we would expect to see low double-digit ROIC on a normalized basis. At 2019 revenue levels of \$15.5 billion, we would expect to achieve ROIC in the low teens, well above our cost of capital. As mentioned, our capital allocation priorities have not changed from where they were pre-COVID, including our goal to have an investment-grade credit rating. We will continue to prioritize cash generation to allow us to reinvest in the business, but at more moderate levels than when we were making our generational investments. We expect to be able to maintain CapEx at 3% to 4% of sales to support investments in technology and supply chain capabilities. We also continue to prioritize paydown of debt with plans that we can steadily reduce our leverage ratio, returning to targeted levels of 2.5x or below within 24 months.

As we look ahead, while recognizing that resuming share repurchases and dividends is a board-level decision, we are targeting being in a position to return cash to shareholders by the end of 2021.

Looking at the near-term dynamics, we have reiterated our expectations for Q4 today, and look forward to talking with you more when we report fourth quarter earnings on March 2. We have pivoted to a growth mindset heading into 2021, with a focus on driving sustainable improvement in revenue momentum and profitability. We view 2021 as a critical year to deliver near-term improvement in financial results, while unlocking the power of the digital-first platform to drive sustainable growth, and market share gains in 2022 and beyond. Given the expected benefits from our stores being open for the entire year as well as execution towards our 3 areas of greatest opportunity, winning in our most important markets, broadening the reach of Nordstrom Rack business and increasing our digital velocity, we expect to deliver 25% plus revenue growth over 2020, with digital representing approximately 50% of our sales. With continued benefits from rebasing the cost structure of the organization, we expect to achieve positive EBIT, while continuing to prioritize cash flow growth that will allow us to pay down debt and bring our leverage ratio to approximately 3x by year-end. We will go into more detail on our 2021 outlook when we report earnings.

In closing, we are excited about this new direction for the company. Our strategy is centered on our unwavering commitment to the customer and supported by a culture that has defined our success throughout our history. It takes advantage of the work we have already done and the investments we have made to build our two powerful brands, our digital capabilities and our market strategy, and it is rooted in a deep commitment to creating value for our shareholders in the years to come. Our teams are united and focused with clear direction and aligned priorities. We look forward to continuing to share our progress. Thank you for your interest in Nordstrom.

(Break)

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## QUESTIONS AND ANSWERS

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

Welcome back everyone, and we're now ready to start Q&A. Joining me today are Erik Nordstrom, Pete Nordstrom, Anne Bramman and Ken Worzel.

Thank you for submitting your questions in advance. For the sellside analysts, please feel free to continue to submit your questions throughout this session. We have about 30 minutes for questions, so we'd like to get through as many questions as possible.

With that, I'm going to turn to our first question. This question is for Erik coming from Oliver Chen with Cowen. Why is now the right time to look for new customers? What ages do you think are the biggest opportunity? And where are they spending now instead?

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**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

Well, a big driver is in the customer segmentation work we've done, where we have a deeper understanding of those customer segments that we perform really well with and where we don't have as much penetration. And as we discussed earlier, there's a segment in our Nordstrom business, there's a segment in our Nordstrom Rack business of customers who are in our stores, who we get good feedback from [or untraded] because we're not carrying exactly the depth that they're looking for.

And I think there's an external and an internal overlay to that. Externally, increasingly, customers shop everywhere, especially the best customers. They're in -- they shop full-price, they shop off-price. They shop stores, they shop online. That's certainly true for us.

We have customers that shop cross-channel, their spend goes up 7x. And we have customers that engage in both of our brands, in Nordstrom and Nordstrom Rack. Their spend goes up 4x. And that really lends to our model of the synergies and customer acquisition and migration.

So we -- Rack has always been a very strong customer acquisition vehicle for us, and we have really pinpointed areas where we can step on the gas there. To the age -- I want to say younger, it is younger, but part of that is millennials are aging. So our younger customers, the last several years are getting into their sweet spot of spend, especially in our categories, but they have different expectations. And again, the millennials shop across everything more. So we see an opportunity to really focus on the millennials and grow our customer base there.

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

Great. Thanks, Eric. Next question goes to Anne coming from Dana Telsey with Telsey Advisory Group. It wasn't too long ago that you achieved a 6% operating margin in 2018. In order of importance, what are the key drivers to getting back to 6%? And would you calibrate long-term as 3 or 5 years?

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

Thanks, Dana. So I think what's really important for us is the fact that we are really focusing on driving profitable growth in the business. And so there is a commitment on delivering on the bottom line, but also growing the top-line from a revenue perspective. And as what you saw in the models we shared with you and some illustrative examples, because of the way we've rebased our cost structure, we can actually achieve same levels of 2019 margin level on \$1 billion less of revenue. And at the same revenue levels in 2019, we can actually get to that 6% plus. So we are really excited about how we're approaching the business and the reason on this. So for us, it's about driving that profitable growth, gaining market share and keeping the discipline that we have on our SG&A structure.

As far as the question on 3 to 5 years, it's -- the way we're talking about it is 3 to 5 years. It's really a lot of unknown how quickly the marketplace comes back given COVID vaccines in emerging markets, people feeling more comfortable socializing with each other. But the way we're thinking about it is a 3- to 5-year time horizon.

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

This next question is for Ken and is coming from Ed Yruma with KeyBanc. How will you introduce new customers to Rack, particularly those that are more price-sensitive? Does the focus on price-sensitive customers require new merchandising models?

**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

Yes. Thanks, Ed. That's a great question. I'll start with the second part of the question. Yes, the focus on penetrating more and offering an offer that resonates more with those very sensitive customers does have an implication for merchandising mix. And we're already moving forward with that, the lower price points, in particular, they are price-oriented customers as opposed to brand-oriented customers, but also how we lay out the stores. We've already -- we set up a number of our stores to make navigation in those stores easier, which we know is something that, again, that set of customers respond to really well.

In terms of attracting new customers to that. Right now, we're in a phase where we think we have a lot of opportunity to simply sort those customers who are already coming to the Racks or fit into those segments and get a higher share of wallet as we see the result of what we've already started to roll out. We'll then move forward with the efforts around what do we need to do with marketing and other mechanisms to expose that offer to even more of those customers.

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

Great. Thank you, Ken. This next question goes to Erik, and it's coming from Omar Saad with Evercore. Digital is now 50%. Any signs visual profitability starting to infect? Perhaps you could share anecdotes of how Nordstrom digital on the local market strategy drives higher and/or more consistent profitability.

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**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

Yes, we have seen. It's -- I think one of the points we really want to get across today is our fundamental model has changed, and we started that journey a couple of years ago, really announcing our Investor Day in 2018 of market strategy. And market strategy is our business model today, and it has changed our economics, changed our cost structure. Specifically, we'll pull out one element of it - shared inventory. When we've -- with the shared inventory, two things for customers, we saw a 10% increase in spend. In our inventory, we saw over a 10% improvement in inventory turn. And that -- we've seen that at full-price just launched shared inventory in our Rack business. And so far, the signs are, it's actually tracking faster than what we saw when we launched it in our Nordstrom business.

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

Great. Thank you, Erik. Next question goes to Pete, and it's coming from Adrienne Yih with Barclays. What are some of the high-growth digitally native business models such as rental or resale that can be incorporated into the JWN omnichannel model? Basically, how does Nordstrom evolve to take share in fast-growing new health business models?

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

That's a great question. And hopefully, what you've heard over the last couple hours, a clear answer to that and that's really around our ability to platform that allows us to pursue different ways of extended models with different brand partners and different ways of serving customers, things that they're interested in. But we can't do that if we don't have a platform that enables it to all work. And I think that's a big part of really our team as we kind of look future back as we need the agility that the digital technology efforts are going to afford us and have been affording us, seeing we're on that journey. So I think that's the biggest thing. And of those two examples, I think the resale one in particular is pretty compelling. We've done some of that. I think there is a way that we could learn from that clearly, and we can do it better with some of it right now, too.

So I'd say just stay tuned. There's certainly an opportunity there. And I think if we're going to be meaningful to our customers, we're going to have to participate broadly in extended models like that, like resale.

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

Thanks, Pete. This next question goes to Ken coming from Dana Telsey from Telsey Advisory Group. What does the store of the future look like for both Nordstrom full line and Rack, including size and what percentage for selling and what percentage of fulfillment options?

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

Thanks for the question, Dana. I guess my perfect answer is we're not entirely sure what the store of the future looks like. But what we do know is that we need the agility to change our formats and the way we use our physical assets to serve customers the way they want to be served. And you can see that in what we've done over the last 12 months, an acceleration of what we were already doing. So when you ask an example about order fulfillment and the role that those kind of services play in our stores, in both our Nordstrom full-price stores and Nordstrom Rack stores, if you go into it today, you'll see a fundamentally different presence for those services today and visibility for those things than you did even 12 months ago. And that just reflects the reality, which is that customers want to be served that way and expect us to be adaptable to do that. So what we have done is made all of our stores a lot more flexible with respect to their layouts and the ability to flex the space we have, whether that's across product categories or, in this case, flexing into services.

The other thing I'd just highlight is that we're going to continue and have continued to look at new ways to get connected and closer to customers. So for example, our Nordstrom Locals, which has hyper localized neighborhood hubs in L.A. and New York, we're really encouraged by those. COVID is an odd time, so it's a little hard to read all the signals. But what we know is that as all of our physical locations have been able to reopen, those locations in particular, have rebounded even faster than the rest of our physical locations and are ahead of our projections and expectations with respect to customers engaging with that. So in terms of the size, I don't think we know enough to dramatically change our future plan. But in terms of the assets we already have, we have a lot.

We have nearly 350 physical locations to supplement our digital capabilities. We're going to be agile in the way we use those, and we're going to continue to flex that in the way that customers want us to, to serve them better.

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

Ken, super helpful. The next question goes to Erik, also on stores, coming from Alexandra Walvis at Goldman Sachs. How has the pandemic altered your thinking on your store base and the size of the footprint you need going forward to execute your local market strategy? How about the Rack store base? Is 300 still the long-term target?

**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

Well, we made a pretty fast decision to close 16 Nordstrom stores early in the pandemic. All of our stores were profitable heading into the pandemic but with the reset going on and more importantly, taking market view of our store base, that's been real helpful for us. The vast majority of those stores were small store in a multi-store market. And we look at our physical footprint as a portfolio by market. And that portfolio is Nordstrom stores, Nordstrom Rack stores, local service hubs. And we really like that portfolio and the flexibility that it gives us. And I guess to Ken's comment, we don't know exactly how that will play out. But we really like the flexibility and the synergy of those locations.

We don't anticipate big Nordstrom store closures moving forward. We have a tighter store count than most of our traditional mall-based competitors. The Rack stores, we believe there very well could be new store growth opportunities there. Rack stores are -- have a short lead time to make those decisions and build them out and as we expand the aperture of who we serve, particularly with price, we think there is an opportunity for potential store growth there.

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

Thank you, Erik. This next question is for Pete coming from Michael Binetti with Credit Suisse. The new inventory model seems like it would shift some of the inventory and working capital risk back to the brands. How are your brands thinking about taking on that incremental risk? And how are they asking to be compensated for it?

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

Well, I think it starts with understanding the size of the prize in terms of how big the business can be. And if we're more transparent with each other, we could arrive at a solution that's mutually beneficial. I don't think -- it goes somewhat to what we were talking about in our panel, that we got to move away from a transactional way of doing this and more of a collaborative way. And again, it's been our experience, really highlighted through this last year, that the brands want to work with us to find different ways how we can serve customers better and improve speed and agility and in a lot of ways, share the risk. I think that's been a pretty consistent theme. So that continues to evolve, and it gets enabled really in our end, I think, through trust.

We've got a great team of merchants that have been doing this for a long time, have great relationships in the market. When you can build that trust, if you can be more transparent, if you can find win-win scenarios, I don't think the idea is how we're offloading risk onto the brand partners. I think we're just trying to find ways to share that risk in a way that enables the business to happen with greater speed and agility and more relevance for customers.

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

Great. Thank you, Pete. This next question is for Anne and Ken and is coming from Chuck Grom with Gordon Haskett. As you expand the range of price points at the Rack, will this have a material impact on the merchandise margin structure of that segment? As a follow-up, how big of an opportunity does this represent from a customer acquisition standpoint? So Ken, if you want to take the customer question and Anne can follow-on with the impact on margins?

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

Yes. I mean as we showed a little bit and talked about and you heard Geevy talk about, we think the opportunity is significant. We're significantly underpenetrated with that price customer relative to the opportunity. And we think there's -- if you just look at our ability to serve that customer, but where we are as a starting point, certainly growing that by 50% seems imminently doable as we adjust the merchandise mix and the merchandise model to be more relevant for that customer, so we do think it's a huge opportunity.

And the one thing I would just add to that is when we are able to engage that customer, they look very similar in terms of the rest of their behaviors in terms of engagement with our overall brand and our overall company. So we still see those customers, even if they get acquired as off-price customers, they become Nordstrom full-price customers over time. They're similar in terms of their multichannel shopping behavior over time. And so that means their spend and customer life value goes up.

And to get there, yes, we do have to adjust the product mix. But we're also adjusting other aspects of the offer in terms of category as well as we talked about some of the traffic-driving categories in our -- both of our brands but in Nordstrom Rack, in particular, between Beauty and Home and Active and Kids. So we think we can drive more trips if we have the offer that's relevant there. Certainly with a lower ASP and some of that, we still think we can get similar productivity and, frankly, even better economics in many cases. And I'll let Anne add on in terms of the margin implications.

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

Yes. Ken, you said it well. When we look at this business, we see it's a great opportunity on the margin side as well. It's a high-turning, traffic-driving engagement, it's trip-driving, so we see this as really helping continue the strong profitability of our Rack business.

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

Thank you, Anne. This next question is for Pete coming from Paul Lejuez with Citi. How do your existing brand partners factor into taking choice count from 300,000 to 1.5 million? How much of that increase is driven by doing more with existing brand partners versus bringing on new brand partners?

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**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

Well, I think the first opportunity has to do with offering more from the favorite brands of our customers. When you're bound by the physical limitations of a store and the physical footprint, it doesn't allow you to carry the full assortment. So I mean just looking like in our top 50 brands, being able to say to -- let customers know that if you love these brands, we've got everything they have to offer. We don't have to artificially limit it based on the physical floor footprint, and that's the beauty of the digital-first mindset. And so that's really how we're looking at, I think, initially is give them what we know they already love, the brands they already love, extend that selection, work with our brand partners to be able to do that oftentimes that comes through drop ship. And then I think, ultimately, again, as the platform enables us to do this, and we can do more of that work around just the functionality of dealing with all those choices and everything that goes with that is we can leverage our technology, our data and our platform to be able to enable that, that's going to be a big unlock for us as well.

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

Thanks, Pete. This next question goes to Anne from Brian Callen with Bank of America. It's a multi-part question, so I might just summarize it slightly. Can you provide perspective on cash generation dynamics in '21, including working capital sources or uses and CapEx? And then more broadly, can you talk about how you're thinking about capital allocation as it relates to debt maturity and investment-grade credit ratings?

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

Yes. Thanks for the question. And we've talked about this both today as well as in the last several quarters. Our capital allocation philosophy has not changed since prior to COVID. So first and foremost, we're going to invest in the business, and we're targeting about 3% to 4% of revenue being reinvested back in the business. And the majority of that is going to be in continuing to develop our capabilities in our platform, both in our supply chain side and our technology side. So that is a significant portion of where the reinvestment is going. The second piece to it is at investment grade, and we had set out target leverage ratios prior to COVID hitting getting to 1.5x to 2.5x.

And as we talked about for 2021, we were expecting to get to around the 3x mark by the end of the year for fiscal '21, with the goal and the target to get back in that range pre-COVID by the end of '22.

So from a cash perspective, we've really been generating positive cash flow since the -- after Q2. And we are continuing to build that operating cash flexibility and that strength. So one of the targets we've given, the commitments we've made is to have at least \$1 billion plus operating cash each year, which is what we did prior to COVID. So as we get through the next time period, where we're starting to build the business back, that is the commitment to get back to.

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

Thanks, Anne. Super helpful. This next question goes to Ken coming from Kimberly Greenberger with Morgan Stanley. You indicated you expect margin parity between Rack and NordstromRack.com over the next several years. What are the key levers to get the business there?

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

Yes. It's a great question. And there's a few, I mean we talked about them separately. But to bring them together, one is what we're doing, we've already achieved in terms of bringing together the inventory. So shared inventory provides a lot of benefit for us in terms of the business. But one of the economic benefits it has for our digital business is we get access to a lot more inventory for our customers without having to make more investment and take on the markdown risk associated with that. And we know from our full-price experience, as Erik referenced, Pete referenced, that we get both top-line benefit from that, but we also get margin benefit by avoiding markdowns. So that's part of the way we get there. We also get there by getting the scale economies that come from really leveraging our platform and the capabilities we've already built, built it once and then use it many times. And what we're doing there, as we talked about, is we're currently in the process of moving our NordstromRack.com business onto the same JWN and e-commerce business that supports Nordstrom.com.

And frankly, the pilot we had for that was our launch of Nordstrom.ca. So we've already seen the leverage we can get by bringing a second and now a third digital part of our business onto the same platform. And there's an economic advantage to that because we're reusing technology we've already built and getting leverage off of it.

And the third piece is, we continue to have opportunities and are seeing real gains in the fulfillment side of the equation. And you're going to see us continue to make progress there as well as we've built out our fulfillment network, we're also building up the capability for all of our fulfillment nodes to serve both of our brands. And that brings selling cost advantages as well to the whole business, particularly important for our NordstromRack.com business. So we have a lot of levers that are already in motion, and we've already seen the benefits of it. So we're confident on the path we're on there to get to comparable economics across the channels.

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

This next question goes to Anne coming from Jay Sole with UBS. Would it be possible to elaborate on 'fiscal year '21 EBIT is expected to be positive' means? And other -- should I assume that means around \$0 to \$50 million in EBIT or something larger?

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

Yes. Thanks for the question. We are really looking forward to spending more time on our 2021 plans on our earnings call on March 2. Having said that, what I can say is that we are committed to driving profitable growth as we gain market share. And that's something that we are -- you see from all of us making that commitment and that focus. The other thing is you've seen some of our target for our leverage ratios as well. So getting down to 3x, I think, would imply something beyond a \$0 EBIT.

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

Thanks, Anne. This next question goes to Pete from Omar Saad with Evercore. How easy is it to integrate concession and drop ship while maintaining the customer experience? Adding third parties can make it tricky.

**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

Yes, it can. But I think it gets back to those win-win scenarios. And as I think, again, was illustrated on the panel, these people we do business with are also retailers as well. So these concepts aren't foreign to them. I think they know how to defer to customers, and it just kind of gets back to that trust. So I think it -- we lose some control, but the confidence that we have with the trusted brand partners, I think, enables it to work.

I want -- I'll give you a good example of that. So we've been doing Topshop business for several years; it has been super successful for us. And that arrangement wasn't exactly a wholesale model. It wasn't exactly a concession model. It was kind of a hybrid and it evolved over time to work out the best interest of the business, that flexibility existed for us because we had good relationship with those guys. And now you see where Topshop has been sold to ASOS. And I got to tell you, it's super exciting for us. I mean ASOS is really good at what they do. They really understand that young fashion customer. They come from a total digital-first mindset and how that platform works. And so the journey begins as we're working with them to figure out how we can grow our business. And it's going to come through the transparency of understanding how the business works and what the opportunity is as we listen to each other.

And I have no doubt that the model will evolve from what we have now because it needs to. And it should. And just have a better view, I think, collectively about what needs to happen to grow that business and how speed is a really important part of that. So I think it's illustrative of when we have these relationships, kind of where it's taking us and again, we are super enthusiastic and optimistic about what can happen to that Topshop business with ASOS.

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

Very exciting. Thank you, Pete. This next question goes to Anne coming from Chuck Grom with Gordon Haskett. Can you give some insights on inventory efficiency opportunities in the model and what churn ratios you are aspiring to?

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

So as we continue to evolve the model, we certainly expect the returns -- the inventory turns to improve. And it's certainly a little bit -- it's a less asset-intensive piece of working capital. I think where you're seeing this come out is on the return on invested capital. And as we go through this model and we laid out the scenarios for you, both on the -- what it would take to deliver low double-digit to low teens ROIC. It really would imply there's a flex point between those -- that investment and the returns and the margin coming out of that. The good news is we can get back to a very -- exceeding our cost of capital as well as having a good return for our shareholders over the long term, which we think ROIC is the best measure of with these different levers that we can pull in the business.

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

Thanks, Anne. This next question goes to Erik coming from Edward Yrma with KeyBanc. Can you provide more color on opening the aperture on Rack price points? Is there a risk of damaging the premium positioning of the Nordstrom brand?

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**Erik B. Nordstrom** - Nordstrom, Inc. - CEO, Principal Executive Officer & Director

Well, first, I think it's important to understand these customers are in our stores already. We know we have customers in our Rack stores that not only shop with us, but shop at these lower price points as well. And they go to other retailers to get these lower price points. So we don't -- we haven't seen any evidence that as we expand price points, that's -- there's really anything negative to it as -- you go back a few years, where we had a lot of Rack business driven by store openings, that was something that we monitored very closely, a lot of customer surveying and brand impressions and how did -- as the growth of our direct business, how did it affect the Nordstrom brand. And not only did we not see anything negative, it actually came back as a positive.

Again, as Anne says, customers are already shopping this way. They shop across price points and they look for us for some things. They look for us and view us as advantaged in bringing newness in the discovery of brands they haven't -- and styles they haven't tried before, of quality. And so that discovery piece is a big part of it. And the other piece with us is a service leadership. And that's been a strength of ours in stores. And what we're trying to get across here today is our focus in translating that search reputation to the world. So we think there's a lot of space there in price of product to maintain our strong reputation.

And I think they're a piece to that, those strengths that our brand has is we have a strong brand. We've been around a long time. Customers think of us, and we're fortunate in the reputation of our brand has been developed over many years by our team, allows us to expand our customer base while still maintaining the strengths of quality service and product that they expect.

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

Thanks, Erik. Super helpful. This next question goes to Ken coming from Dylan Carden with William Blair. Has there been a disruption in the business as you've implemented some of these new initiatives?

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

There's not been a disruption in the business. I think that these initiatives, actually, if anything, while there's been a lot of challenges in the last year with store closures and all of the other things that have come along with COVID and the impact of that, it's also given us an opportunity to move fast on a number of things. Just to go back to the example we've referenced, the integration of inventory on the Rack side, and enabling our stores to fulfill out of those stores as well as to do order pickup and returns for both bricks out of our Rack stores is an example of something that we got done this year on an accelerated timetable. It would have happened some time later and probably would have happened 6 to 12 months later, if it wasn't for the urgency we were able to create, but also the opportunity we're able to create around focus on that.

And that was because we knew that that's what customers want and needed in the period, and it was also important for the business so that we could use our stores even if sometimes they weren't open to retail traffic. So it's required agility from the business and our teams. It's required reprioritization. But I don't think that's disrupted the business. I actually think it's accelerated the change journey we've been on to get even faster and to leverage technology in a more scalable way to get us to those outcomes for customers faster.

So it's definitely been a challenging year for all the reasons that folks know. In that sense, it's been disruptive. It's as a retailer that has physical locations as well as digital, it's super disruptive when those locations can't be open to serve customers. But at the same time, it's given us an opportunity to really take advantage of the multifaceted capabilities we have.

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

Thank you, Ken. This will be our last question, and it's for Anne, coming from Kimberly Greenberger with Morgan Stanley. So are the SG&A savings from the store closures earlier this year included in the \$200 million to \$250 million of planned savings? So I think this goes back to 2020. Then if you can also give some color on how you're thinking about expenses going forward.

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

Yes. So we set our target at the beginning of the year prior to COVID for expenses and expense savings you can find in the business. And then as COVID hit and you heard from a lot of us today that we made pivots and changes and accelerated some of the strategies that we had in place. And as part of that was looking at really rebasing our entire cost structure, focusing on knowing that the digital piece of the business was going to be at least, say, about 50%. And also knowing that our Rack business was going to continue to be a big growth driver for us as well. And so when we looked at the rebasing of it, there was a piece in the SG&A savings that relates to the store closures, but that's not the biggest driver of this. It's really across the board in many different areas as we looked at redoing our cost structure. So fast forward to '21, about 75% of those savings are

permanent, and they're just a permanent part of how we're doing business. And getting first scale out of the investments we're making, and we're going to continue to get more scale out of the investments we're making based on everything you've heard today, in particular, for our technology capabilities and platforms.

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

Thank you, Anne. So this concludes our Q&A session. Thank you so much for your time and your questions. If there isn't anything or any follow-up, please feel free to reach out to me or the Investor Relations team.

As a reminder, this webcast, along with the presentation, will be available on our Investor Relations site. So with that, I'm going to turn it over to Pete for some closing remarks.

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## PRESENTATION

**Peter E. Nordstrom** - Nordstrom, Inc. - President, Director & Chief Brand Officer

Thank you, Trina. We really appreciate this opportunity to address you today and share our optimism and enthusiasm for the future. We hope that came through clearly. A lot of work has gone into this. And it's really a culmination of multiple years' work in this journey that we've been on, that's been really accelerated through the challenges of our recent times. And while that's been challenging, obviously, it's presented just an enormous opportunity. I think it's through that filter that we approach this. And it's given us a chance to look at the business future back. And so it's why you're hearing optimism from us.

I'd be remiss if I didn't take the opportunity to thank some people here first. I mean first of all, thank you to the people that are watching this event today. Thanks for your attention and engagement. I want to thank the production team. I'm sure everyone can appreciate that in these moments when we're doing all these things virtually, and it's different than perhaps we've done stuff in the past. And they've done a really nice job, working hard to make this, hopefully, painless for all involved. Certainly, at our end, it's been really good.

I want to thank probably primarily -- well, before I do that, I want to thank the guests that appeared today, like in the panels and what have you. It's great to be able to get those kind of voices in to help create -- lend us some context to what it is that we're talking about and some proof points on how we work together, so we really appreciate that.

And lastly, I want to thank our employee group. I mean talk about a challenging year. I mean we've asked everyone that worked here to think about how to do it differently and to really grind it out with overlay of things that are literally existential threats, and also thinking about how we can maintain and keep that connection with customers, which is so important for us. And our people have shown a resilience and agility, a determination with kind of a changed mindset, and it's enabling us in so many ways to be able to go forward and be successful. They've just done an amazing job, and I know we say it all the time, but people are such a huge differentiator for us and what it really means for the brand impression and obviously, the results what we deliver.

The last thing I want to talk about is kind of elevate a little bit from all the tactics that we've kind of explained in detail today. And that's to say, why are we doing all this? And I'm reminded, as I was riding in the elevator today reading this quote that's on the wall from my dad. And I see the stuff all the time. But for what reason, I seem to notice it more today, that it talks something about, I'm paraphrasing, that our reputation is 100% built on the trust and confidence of customers and make no mistake about it, customer service is our single biggest differentiator. So when you think about all these things that we're doing, they can be complicated, they can be academic in nature. But to be clear, the reason that we're doing them is to make customers feel good and look their best. And we know that when we make customers happy that the sales follow and the results follow.

We've got a long history of working that way, and it's afforded us a wonderful opportunity. We have generations of customers that trust Nordstrom. And when things change or evolve and they look to how they want to spend and how they -- who they want to engage with, what companies reflect their values and what companies do they value, Nordstrom should come at the top of that list. That is our guiding principle and the more

we stay focused on that, the better off we are. I want to make sure everyone understands that, that commitment is as strong today as it's been and it is going to be what's going to bring us the kind of results that we're all glad to have.

So thanks again for everyone, for being a part of this. Have a great day.

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