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JWN - Q4 2019 Nordstrom Inc Earnings Call

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OVERVIEW:

Co. reported 4Q19 EPS of $1.23. Expects 2020 EPS to be $3.25-3.50 and sales growth to be 1.5-2.5%.

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PRESENTATION

Operator

Greetings, and welcome to the Nordstrom Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. At this time, I'll turn the call over to Trina Schurman, Director of Investor Relations for Nordstrom. You may begin.

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

Good afternoon, and thank you for joining us. Today's earnings call will last 45 minutes and will include 30 minutes for your questions.

Before we begin, I want to mention that we'll be referring to slides, which can be viewed by going to the Investor Relations section on nordstrom.com. Our discussion may include forward-looking statements, so please refer to the slide showing our safe harbor language. Participating in today's call are Erik Nordstrom, Chief Executive Officer; and Anne Bramman, Chief Financial Officer, who will discuss the company's fourth quarter performance and outlook for 2020. Joining during the Q&A session will be Pete Nordstrom, President of Nordstrom, Inc. and Chief Brand Officer.

With that, I'll turn the call over to Erik.

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

Good afternoon, everyone, and thank you for joining us today.

We ended 2019 in a position of strength and have momentum heading into 2020. During the second half of the year, we met or exceeded the operating and financial goals we had previously shared with you. We also made significant strides in delivering on our strategy, and we're encouraged by our customer response.

We're proud of our team's many accomplishments. First, we meaningfully improved customer satisfaction scores in many areas of our business, including loyalty, Full-Price, Off-Price, and during our 2 key events, anniversary and holiday. Second, we accelerated the rollout of our market strategy to 5 of our top markets, New York, Los Angeles, San Francisco, Chicago and Dallas- resulting in outsized customer engagement and a lift in sales trends of 80 basis points in the fourth quarter compared to other markets. Third, we successfully executed plans to drive our top line, as evidenced by a 400 basis point improvement in the second half of the year relative to the first half. And finally, our operating discipline is delivering strong results. During the year, we realized $225 million in savings, exceeding our plans by 10%, maintained a favorable inventory position and delivered operating cash flow in excess of $1 billion for the 11th consecutive year.

Our competitive advantage is our ability to serve customers seamlessly across multiple touch points. This includes our 2 brands, Nordstrom and Nordstrom Rack, in stores and online. We have a high-quality store portfolio with 95% of our 116 full-line stores located in "A" malls, and most of our 248 Racks in off-mall centers. Our established and growing digital business now makes up 1/3 of sales. Roughly 30% of our customers are shopping across more than 1 of these touch points. And as a result of this engagement, we know these customers spend 4 to 11x more on average.

We also see increased spending through engagement with our services. For example, customers who use alteration or styling services spend 3 to 5x more on average. This level of engagement supports our strategy to integrate Trunk Club within the Nordstrom styling ecosystem, which we'll discuss shortly. Customers also appreciate the convenience of order pickup, doubling their spend over time. This service leverages inventory in the market, making it our most profitable transaction. In the fourth quarter, order pickup sales grew more than 100% and contributed to more than half of full price digital growth. In the 5 markets where we rolled out our market strategy, order pickup sales grew 160%.

Through our focus on offering customers a curated assortment of the best product, we're continuing to innovate with existing and new partners. Recent examples include Rent the Runway, Glossier, Skims and our re-commerce concept, See You Tomorrow.

Moving to fourth quarter results, we delivered on our top line expectations through the execution of our holiday strategy. We increased the assortment of giftable items, particularly in lower price points, which had outsized sales growth and higher sell-throughs in both Full-Price and Off-Price. We provided customers with new offers and experiences, including gift card, loyalty and shipping incentives, and we're pleased with their response. Going forward, we have opportunities to refine our operational execution to gain efficiencies and scale.

The strength of our Off-Price execution also contributed positively to results. The team's focus on inventory efficiencies enabled a constant flow of new product. Customers responded well, leading to a meaningful improvement in underlying sales trends. The Off-Price business increased profitability for the year and inventory turns for 9 straight quarters.

In October, we significantly expanded our presence in the New York market with the opening of our flagship. We view this overall market as a $700 million incremental sales opportunity over time, and we're already seeing an acceleration in trends. Our aspiration of having a world-class store is a cornerstone of our market strategy. We're encouraged by the positive feedback from our customers and brand partners. Customers have responded well to our service and experience offerings, including express services at our flagship and our Nordstrom Locals and Racks. The flexibility of our store design also enables us to apply learnings to refine our merchandise offering. With our store opened for 4 months, we're early in our journey for further opportunities to leverage this valuable asset.

With the momentum from our market strategy, the strength of our digital and physical assets allow us to better serve customers while increasing efficiencies. Our goal is to gain market share while driving customer engagement and inventory turns. To achieve this, we're leveraging our assets of people, product and place to serve customers on their terms. This means expanding merchandise selection that is available next day without increasing inventory levels while extending convenient access to our services. 2020 is about scaling our market strategy in 10 of our top markets, which represent more than half of our sales. We have several key initiatives planned for this year.

First, we're rolling out our strategy in 5 additional markets: Philadelphia, Washington, D.C., Boston, Seattle and Toronto, utilizing our existing technology platform to give customers up to 7x more merchandise selection available next day.

Second, we're increasing convenience with additional Nordstrom Local neighborhood service hubs in L.A. and New York and offering Full-Price express services - order pickup, returns and alterations- at more than 50 Rack stores.

Third, we're launching a dedicated e-commerce site for customers in Canada to create a seamless shopping experience across stores and online, such as order pickup and returns.

Fourth, we plan to ramp our supply chain network in the second half of the year to ultimately improve delivery speed on the West Coast, which represents 40% of our customer base.

Finally, styling is a key differentiator for Nordstrom. To further leverage this capability, we are fully integrating our Trunk Club service to enable a superior experience for customers, drive more business and gain efficiencies. We are now bringing together Nordstrom and Trunk Club capabilities across merchandise, technology, loyalty, personalization, people and physical locations. Our plans include relocating clubhouse styling to nearby Nordstrom stores to reach more customers while continuing to offer our core Trunk-based services. This decision resulted in a noncash charge in the fourth quarter, which Anne will discuss.

We're excited by this opportunity to bring together our styling programs, and look forward to rolling out this cohesive styling experience to customers this fall.

Before we wrap up, I'd like to comment briefly on coronavirus. We're monitoring this fluid situation closely, with the well-being of our customers and employees as the top priority. We have a team focused on monitoring, planning for, and responding to any potential impacts the virus may cause to our business. We're assessing potential implications for both traffic and supply chain. Our private label business makes up around 10% of sales, with less than 30% sourced from China. We are communicating with our vendors and brand partners as it relates to merchandise deliveries. We're looking at this on a case-by-case basis and planning accordingly.

And finally, today, we announced the transition of the Co-President titles to a sole Chief Executive Officer. I will serve as CEO, and Pete will serve as President of Nordstrom, Inc. and Chief Brand Officer. This is not about a hierarchy. These titles help clarify our respective roles as we strive to maximize our impact both as individual leaders and as a team. Pete and I are grateful for the dedication and commitment of our teams. We made tremendous progress this past year to execute our market strategy, accelerate our sales trends and maintain our inventory and expense discipline. As we continue this momentum into 2020, we remain focused on driving profitable growth while connecting with customers and serving them on their terms.

I'll now turn it over to Anne to discuss our financial results and outlook.

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

Thanks, Erik. Our fourth quarter results demonstrated further top line momentum and continued operating discipline. We successfully executed plans to accelerate our sales trends, expand merchandise margins, increase inventory turns and reduce our cost structure.

Fourth quarter EPS of $1.23 included a $0.15 impact primarily related to Trunk Club noncash integration charges in addition to $0.04 of debt refinancing costs. Excluding these charges, Q4 earnings were in line with our expectations.

Our ongoing efforts to improve customer service while delivering on our top and bottom line drove strong second half results. We improved sales trends by 400 basis points and grew EBIT by more than 3% when excluding the charges.

Our fourth quarter sales were in line with expectations driven by 4 areas: loyalty, digital marketing, merchandise assortment and the opening of our New York flagship. Sales increased 1.3%, reflecting strong holiday performance with growth in Full-Price of 1% and Off-Price of 1.8%. Our top line momentum reflected our ability to constantly adjust levers across marketing, loyalty and fulfillment. While the customer response to our holiday offers was even greater than anticipated, we have further opportunities to refine our execution and to drive additional efficiencies. We'll apply these learnings to improve our flow-through for the next holiday season.

We continue to see broad-based improvement across our Full-Price and Off-Price merchandise divisions, driven by giftable items and higher in-stock levels. We fully addressed our execution related to the rollout of our enhanced loyalty program last fall, resulting in a rebound in customer satisfaction scores and redemption rates. We now have 13 million customers in The Nordy Club who contributed 2/3 of our sales in 2019.

Our gross profit rate decreased by under 10 basis points, which exceeded our plans for modest deleverage. We expanded merchandise margins which nearly offset higher cost from growth in our loyalty program and occupancy from our New York flagship. Despite a highly promotional environment, we had lower markdowns relative to last year as a result of maintaining a healthy inventory position. We ended 2019 with inventory down 3%, marking 4 consecutive quarters of sales growing faster than inventory.

Turning to SG&A. We incurred charges of $32 million in Q4, primarily related to noncash write-downs of intangibles and club houses. Excluding these charges, our SG&A rate was flat to last year. We realized $55 million in expense savings in Q4 for a total of $225 million for the year. Through our expense discipline, we will continue to make permanent reductions to our base cost structure enabling us to reinvest in the customer experience and increase flow-through.

To recap 2019, we improved the customer experience, accelerated sales trends and continued the strength of our inventory and expense discipline. We built momentum in the second half of the year, expanding EBIT margins by roughly 20 basis points when excluding the integration charges.

With the opening of our New York flagship, 2019 marked the end of our generational investment cycle. Overall, these investments delivered $2.1 billion in sales and achieved our bottom line expectations for the year. In 2020, we expect ongoing EBIT improvement as we continue to scale as part of our market strategy of further leveraging these investments to improve the customer experience and gain efficiencies. As Erik mentioned, this includes combining Trunk Club into a holistic Nordstrom styling offer and launching a dedicated e-commerce site in Canada. As we further integrate these investments into our business, we will assess our overall performance using a market perspective and measure success by our ability to gain market share, improve customer satisfaction and increase customer engagement.

Turning to our outlook, I'd like to address how we're positioned relative to our targets shared during our Investor Day in 2018.

While our top line results in 2019 set us behind on our sales and EBIT margin targets, we remain on track to deliver increases in free cash flow and return on invested capital. We are successfully executing our key strategies and took aggressive actions during the year to drive sales, accelerate our expense savings plans and expand merchandise margins. We plan to provide a further update on our strategy and long-term targets at our investor event in New York City this fall.

Our 2020 EPS outlook range of $3.25 to $3.50 is based on sales growth of 1.5% to 2.5%. We're planning growth in Full-Price and Off-Price, which is equally driven by the scaling of our market strategy, inclusive of our New York flagship and continued top line momentum. For EBIT, we expect a range of $815 million to $855 million, which implies EBIT margin of 5.4% at the midpoint. When excluding last year's integration charges, this assumes a flat EBIT margin. We're planning gross savings of $200 million to $250 million from productivity initiatives, with a vast majority benefiting SG&A. These savings help offset higher depreciation from our New York flagship and supply chain investments as well as the lapping of prior year's performance-related adjustments.

For gross profit, we expect modest deleverage due to higher occupancy costs from these investments. Our savings plan includes merchandise margin expansion from leveraging inventory in addition to increased efficiencies from our loyalty programs.

Moving to SG&A, we expect modest leverage when excluding last year's integration charges. Most of our savings plan represents continued reduction in our base cost structure, including end-to-end productivity improvements in overhead, procurement and generational investments in addition to greater fulfillment and marketing efficiencies.

Net interest expense is estimated to be approximately $120 million. This represents an increase of around $20 million from the prior year due to lower capitalized interest from the completion of our New York flagship. In terms of cadence, we expect first and second half EBIT margins at the midpoint of our guidance to be flat to last year when excluding integration charges in 2019. This reflects annualizing the New York flagship, lapping softer sales trends and performance-related adjustments in the first half, and ramping our West Coast supply chain network in the second half.

We continue to have a strong financial position, generating operating cash flow of more than $1 billion for the 11th consecutive year. We have a balanced and disciplined capital allocation approach to reinvest in the business and return capital to shareholders while maintaining an investment-grade credit rating.

2020 is a pivotal point in free cash flow inflection from exiting our generational investment cycle. We expect free cash flow to increase by approximately 2.5x from 2019, with CapEx moderating from 6% of sales to 4% sales. We will continue to invest in digital capabilities to improve both the customer experience and operational efficiencies, with more than half of our plan allocated to technology and supply chain.

We ended 2019 with an adjusted debt-to-EBITDA ratio of 2.8, consistent with our expectations when excluding a 10 basis point impact related to the integration charges. Targeting debt leverage of 1.5 to 2.5x, we expect to be around the top end of our range by the end of 2020.

In terms of direct returns to shareholders, we continue to target a dividend payout of 30% to 40%. Our EPS guidance assumes future share repurchases of $300 million to $400 million in 2020. And finally, we expect an increase in return on invested capital from improved profitability.

Our 2020 guidance does not include the potential impact of coronavirus. As we continue to monitor this dynamic and rapidly evolving situation, we remain flexible and agile in adjusting our inventory, expense and capital allocation plans accordingly. We have a strong financial model, which is supported by our healthy balance sheet and cash position.

In closing, we are very encouraged by the progress we made in 2019. We demonstrated our ability to accelerate our sales trends through our focus on the customer. Our ongoing inventory and expense discipline meaningfully contributed to our bottom line results. As we continue our momentum into 2020, our team's proven ability to execute, combined with our business model to serve customers how, when and where they want to be served, positions us for long-term success.

I'll now turn it over to Trina for Q&A.

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

Thank you, Anne. (Operator Instructions) We'll now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Oliver Chen with Cowen & Company.

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

Regarding your guidance and it calling for merchandise margin expansion, what are your thoughts on where the inventory can be more efficient? And also as you more broadly think about your product assortment, how are you thinking about what the customer wants in terms of price points and mix when you consider the buckets of good, better, best? I would also love your views on re-commerce more broadly and how you're balancing very strong interest here relative to profitability.

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

Yes, this is Pete. In terms of the inventory. I'm going to make sure I got your question right. It was just how to make more effective use and deploy it more efficiently, is that -- was that the question?

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

Yes, the question is about the merchandise margin expansion assumption and what will happen in the year ahead. And then also, as you think about just good, better, best in price points, how you're looking to execute along that line.

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

Well, the big driver that we have going for us relative to inventories is to try to speed up the turn and just be more efficient with it and try to place the supply of inventories as close to customers as we can. And we know through the market strategy, the ability to be able to leverage different buildings that have inventory in multiple stores across the DMA, that makes for a more efficient inventory and better sell-throughs.

In particular, we've been able to speed up our turns in the Rack division over the last year or so, and there's plans where we can continue to do that, which should provide some margin expansion as well. So this -- it's the same thing we've worked on for years and years. I mean, we have to have a lot of discipline around the way we flow inventory in, make sure we have just enough to sell, and being in a fluid position so we can react and respond, and we've been able to do that with a lot of success. So we have confidence we'll be able to keep our margin solid there.

In terms of the product and the price points, what we've done is we've layered on a much more data-influenced way of managing that. In the past, we largely just chased the businesses that were the hottest businesses. And some of what we've seen is in terms of the unintended consequences, we may end up with a bit of an out of balance situation. Like, for example, you've heard us talk a lot about how our designer business has grown quite a bit quarter-after-quarter, really, year-after-year. And at a certain point, that affects your mix and overall balance of your price points. And I -- what we know is that we need to be a little bit more prescriptive in terms of how we plan out our buys and make sure we've got the appropriate balance of price point. This is something that, again, it's much more informed by data than it's ever been, taking a lot of opinion out of that. And we feel like we're on a great path to be able to ensure that we have a balance that's going to serve our customers best.

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

And the last part, which is re-commerce more broadly and how you see that evolving as part of your overall strategy. And your thoughts on incrementality as well as profitability in managing the total business.

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

Sure. Oliver, this is Erik. Yes, it's an interesting test for us right now. It's -- we're new into it. And it is a test, both to see what the customer interest is, and there's been a lot of talk and a lot of interest in re-commerce for a while now that led us to do this test, but also for us to learn about the business model. Ultimately, for us, really, anything we do, it comes out to the synergies with our other businesses. And that's what we're -- we have interest in and learning more about re-commerce. How does it fit in with our other businesses? How does it lead to things like traffic? Engagement? spend? So it doesn't have to be just about the economics of that specific business, but how it fits in with us as a total.

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

Congrats on New York.

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

Thanks, Oliver.

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

Thank you.

Operator

Next is Dana Telsey with Telsey Advisory Group.

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

As you think about this year of 2020 and rolling off of the generational investments, what are the learnings so far that you've learned from New York that can be applied to other stores that could help be a driver of sales and also help drive efficiencies with margins. How do you see that outlook?

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

This is Pete. That's a great question. I think for right now, our primary focus in New York is just making sure that we can learn and be agile to respond quickly. And that largely has to do with our assortment, as I talked about before, kind of the our curated offer and the balance that's implied, what's going to work best for us in New York. I think it's true really in all of our stores that we can sell the best the world has to offer. But it is important that we don't get ourselves in an unintended consequence place with losing the balance of the price points.

I'd say some of the things that we learned in New York is it's not as much about the product, but it just confirms the idea that where we create our biggest point of differentiation is the way that we serve customers and the way that we sell. And this is something that's really been a sharp focus for us. So I think what New York has really done is prove that if we pay attention to that, if we focus on the execution, the way that we serve customers, there's a lot of opportunity for us to grow and improve.

I'd say the other thing is we tried some different concepts, whether there's restaurants and we've had different pop-ins and stuff like that. And the ongoing idea there is that those are things that we should be able to leverage in order to apply as we think about remodeling stores across our fleet.

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

Yes. I would just add -- piggyback on Pete's comment. It is our most experiential store we have, and that's been encouraging. But the other big one has been as our market strategy is the second market that we rolled out to, so we view New York as a total market. And certainly, the flagship's a hugely important piece to it. But we've learned a lot with the 2 locals there. We've opened up the customer engagement, both the locals ramped up quite a bit faster than we saw in Los Angeles, and really encouraged with our engagement there. And it's also the first place that we had Full-Price services of returns, order pickup and alterations in our Rack stores, our 2 Racks in Manhattan. And again, the customer take on that has exceeded our expectations. So that's -- there's been a lot of learnings for our market strategy that we can apply to other markets.

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

And just one last quick thing. Anything more on coronavirus and receipt of goods from vendors and how they're planned to arrive this year versus years past? How do you see the inventory unfolding?

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

So Dana, thanks for your question. On coronavirus, at this time, we haven't really seen a very material change to the -- or disruption to the supply chain. And we are having a lot of conversations with our vendors. And as Erik talked about in his opening comments, our private label business, relatively speaking, is pretty small when -- for total JWN total company. Having said that, I think the discipline in the operating pieces that we put in place in '19 as we saw some of the early half headwinds in our year, I think, are really going to serve us well, given the fluidity of the environment with coronavirus. And so I think what you saw from our teams was we could react pretty quickly with what's going on from an inventory perspective, an expense perspective, and how to make sure we have the -- we prioritize the right product, the right in-stock, the right price points. And so as we have that discipline and learning, we're going to carry that through this year if we see any disruptions.

Operator

Next is Mark Altschwager with Baird.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I wanted to ask about the Rack business. So Rack showed a nice change in trajectory in the second half of the year versus the first half, looking on a 1- or 2-year basis. What are the biggest factors that you think have contributed to that change? And do you think the learnings from the past 1 to 2 years and, really, the volatility that, that business has seen can really enable you to return to a more consistent, positive comp trajectory?

Or I guess, maybe asked in a slightly different way. Is there anything structurally that you think is keeping that business from returning to a low- to mid-single-digit type of growth trajectory?

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

It's Erik. Yes, we're certainly encouraged with our Rack business. The execution last year was very strong. Our Rack team went into the year. They thought that they had a lot of opportunities to drive a better bottom line, and in particular, through inventory efficiencies, that I felt we had just too much inventory in the system, and it was preventing the flow of newness that really is the driver of our business there. So that played out all year long. Our team did a terrific job of growing sales faster than our inventory growth. And that helped not only drive the bottom line, but that helped on the top line in the back half of the year. I'd say going forward, off price is -- a lot of opportunities that we've already taken advantage of in Full-Price through the synergies of our online and offline business. We have rack.com and HauteLook, which is a big online business and pretty unique that way in the Off-Price space. And we get a lot of customer engagement in our stores from online customers, particularly with returns. They like the convenience to bring returns into stores. We still have a lot of opportunities going forward of -- to further integrate our inventories and our systems to see a lot of the inventory synergies as well as engagement synergies that we've seen in Full-Price. We have some of that so far, but there's still more there. And again, we look at the business really not as a store channel and an e-commerce channel, but the total Off-Price business, and we are encouraged as we see opportunities to grow that top line.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And if I could briefly follow-up just on the market strategy, it sounds like you're seeing some very encouraging results thus far. How should we be thinking about the key risk factors as you go live in the 5 additional markets this year. Or what are the important milestones we should be watching for there?

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

Yes. We don't think there's a lot of risk. It's important for you to know, and we've talked about this. There's really not big investments to roll these out. It takes work to roll them out. There's some systems work, there's process work to roll out to additional markets. But the strategy is really about leveraging our existing assets, leveraging the inventory we have in these markets, and leveraging the services we have there. So there's not a lot of risk of new investments.

And we are at the scaling stage. We've tested this for a couple of years in Los Angeles. We're now in 5 markets, and the results have been pretty darn consistent across all those. We've seen lifts in -- order pickup is a key metric there. Our order pickup in stores is -- across our company, up in the fourth quarter, 100%. In our market strategy markets, that's up 160%. And we know that engagement leads to higher spend. That's super encouraging. Overall, we continue to see a nice lift in total top line versus our other markets. So there is a lot of execution on our part to do it well, but we're confident that we've learned a lot from these tests and pilots, and we're ready to scale.

Operator

Next is Omar Saad with Evercore ISI.

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

I wanted to follow-up on the Full-Price business, comped positively first time in several quarters. I think about so many of the services and new capabilities you guys have built: order pickup, omnichannel, alteration, stylists, the local market strategy tie-in. It feels very full price kind of customer-oriented. And looking ahead at your comparisons, the next few quarters, for the Full-Price business, are relatively easy as well. Is it time to think about the Full-Price business comping more strongly positive in 2020 and beyond on being kind of a more consistent driver long term given all these initiatives and how well it fits with that Full-Price customer?

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

Omar, I'm going to take that from a modeling perspective. And then if Pete or Erik want to chime in from a more strategic perspective, that would be great. So we are really encouraged by the market strategy results that we're seeing. And the guidance that we gave for top line was, if you -- for the top line growth, about half of that's coming from market strategy. If you step back and look at between a Full-Price, Off-Price business, it's pretty evenly spread as far as the growth levers coming through. So we do think there's growth in this area as we continue to roll out market strategy and getting the customers even more engaged with us. So again, we are relying and we are planning for both businesses to be delivering this year in positive territory.

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

As Anne said -- I've talked previous question about synergies. We have synergies across Full-Price and Off-Price as well. And launching express services in our Rack stores like we did in New York, where we can do full price returns order pickup and alterations at Rack locations, is a really good example. There really are not Full-Price customers or Off-Price customers. In general, our best customers shop both those channels. And if we can leverage those assets better, we think we can get growth in both those channels.

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

That's helpful. And then a follow-up on the market strategy rollout. I think in your presentation, you mentioned 80 bps lift in those markets. I'm assuming that's not the be all end all, where you expect the strategy to go. Can you give us a sense of where you are in consumer adoption and awareness, and kind of fully ramping up those capabilities and as they become pervasive in the market? Or are we at that point already in those markets where you entered in 2019?

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

Sure. Yes, we have more to go. Just to remind you, the Nordstrom strategy is really about 2 general buckets. One is increasing engagement with services and channels. So Buy Online, Pick Up In Store, alterations, order pickups, styling, we know we get lift from that engagement. The other is -- bucket would be around inventory efficiency and productivity. Being able to have inventory in our stores that isn't blocked, that can be connected with customers wherever they're at in the market in a very efficient and fast way. The result is we get a significantly larger selection to customers with faster delivery and at better economics for us. So that's all in place right now and is encouraging. But the piece that's not in place yet is further inventory capabilities around inventory holdback and forward deployment of inventory. We are building those capabilities out. We have our West Coast fulfillment center just about to open up here. And that facility will ultimately provide those capabilities where we think there's another step change that we had in our inventory productivity.

Operator

Next is Matthew Boss with JPMorgan.

Matthew Robert Boss - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

On gross margin for 2020, I guess, how would you weigh the embedded merchandise margin expansion opportunity if we broke it down between Full-Price and Off-Price this year. And then just on your inventory exiting the fourth quarter, any pockets of markdown risk? Or do you see inventory clean as we enter 2020?

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

Matt, it's Anne. So for the gross -- the merch margin piece that we gave the outlook for, we typically don't give guidance between the different business units. I would just say in general, between market strategy and the continued inventory turns that we're seeing in Off-Price as well as that kind of focus and discipline in the Full-Price business, is we expect to see improvement across the business.

And as far as markdown opportunity, I mean, look, we've had 4 consecutive quarters where we had a positive spread between sales and inventory. We feel like we've got the discipline in place. There's always little small pockets here and there. That's just part of being a fashion retailer. But we've addressed that, and we feel very comfortable and confident as we exit into 2020.

Operator

Next is Alex Walvis with Goldman Sachs.

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

I've got a question on the New York market. So 4 months in to the broader strategy in that market now. I wonder if you could share how much of a driver of growth that was specifically here in the quarter. And then perhaps if you could share a comment on how your thinking has changed or developed on the New York market given the experience to date. Any update on the time line to get to the full market opportunity there.

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

Yes. So Alex, I'll start with the first question that you had. So I would just step back and say, in general, for the quarter, we talked about going into the quarter, we have 4 levers to pull, right? We had loyalty, we had our digital marketing, we had our merchandise assortment, and we had the opening of the flagship. And we were in line with our expectations as far as what we delivered for the quarter. So you can surmise that those 4 factors drove what we thought it would drive as we exited the year.

Overall, I would also say that the market strategy, as Erik talked about, was getting a lot of early traction. One of the biggest accelerations we've seen is in that market from a total market perspective. And I think that store gives us a lot of credibility in the market, but also it's got a halo effect for the rest of that market as well. So it's early in the journey, I should say, it's 4 months in. But overall, I think we're very pleased with the response we've had in that market. And I don't know if Erik or Pete want to chime in.

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

Yes, we're not going to comment about the specific store, like we don't -- with any specifics relative to that exact performance. But as you heard us talk about before, we believe there is approximately $700 million incremental lift in that market combining all our assets together to have better market share. We can clearly see a path to achieving that. So that -- I think we've confirmed that, that's a reasonable thing for us to shoot for. Now the ramp time or all that, I don't know. If you look at our history of stores that reach maturity, all the stores that we've opened up over the years, that's more of a 3- to 5-year kind of lift to be able to get there. I can tell you there's some stuff that's happening aside from that, that makes New York super valuable to us, I guess, or in addition to that.

One thing -- actually specifically about New York, one thing's we've noticed is our conversion rate is very, very good there, amongst the highest of any store in our fleet. I think that gives us a lot of confidence that there's a lot of growth opportunity because when we get customers -- so we've done really a good job connecting with them, we have really great people giving great service there. Having a physical asset in that market, not only is good because that's a big market and there's a lot of sales to be generated there, but what it does for us more broadly is a noticeable advantage for us now. Just the fact that we've got a physical asset in that big market allows us to partner with brands in ways that may have been difficult or limited for us in the past. I'll just give you an example. When we launched the Skims brand by Kim Kardashian, the shape wear brand that she's got. And I'm not sure we would have gotten that launch a couple of years ago without a physical presence there in New York. But having that there lends itself well to everything that Kim Kardashian would bring to the table, and that is an enormous amount of media attention and media impressions. We had over 2 billion, I think actually it was. So it was really remarkable. We sold a ton in that store. But it also really helped kind of a lift around the company. And again, it improves our opportunity to collaborate with our core strategic brands to bring in launches and do new, exciting things.

Operator

Next is Paul Trussell with Deutsche Bank.

Paul Trussell - *Deutsche Bank AG, Research Division - Research Analyst*

Just wanted to maybe talk about the expense discipline that you guys have really showcased. Over the past few quarters, I believe you said, there was a total of about $225 million in savings in '19, and you plan to find another $200 million to $250 million in savings this year, if I heard you correctly. Maybe just touch a bit more on areas that, that's coming from, how you're able to kind of continue to reduce the cost structure.

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

So yes, we were -- the team has done an amazing job of delivering on that this year. As we entered the year, we talked about the goal of $150 million to $200 million in '19. And the fact that we delivered $225 million is really a testament to the discipline in the organization. And when we did it, we were focused on a couple of different ways. One, really, our guiding principle, we don't want to do anything that impacts the customer. So anything customer-facing is really -- we're not -- that's not what we're trying to find efficiencies. Where we're going for is productivity improvements in our tech and supply chain, tighter controls around hiring and discretionary spend. And then we made some changes in our store operating model back in early '19 that drove some savings as well as far as overhead in regional support.

For 2020, the vast majority of that savings is coming through an SG&A line, and we're getting it through a number of different things. So first of all, we are starting to leverage our scale and efficiency in indirect procurement savings. So that is a big piece of what's starting to ramp up in 2020, and we continue to see that going beyond 2020 as well. We're continuing that discipline on discretionary spend and hiring. And leaning in on areas that we need to continue to invest in capabilities, but also leaning into areas where we can drive more automation and productivity. And then quite frankly, we're getting some efficiencies in some of the generational assets as they come online as well as our fulfillment and marketing activities.

Paul Trussell - *Deutsche Bank AG, Research Division - Research Analyst*

That's helpful. Then just a general question. As it relates to new store kind of pipeline going forward across all the different categories, just how you're thinking about that, not just this upcoming year, but just longer term as well.

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

Paul, it's Erik. For our Full-Price brand, we don't see a lot of new store growth there. And outside of New York, the last couple of years has been pretty light on that. But I don't think I have to tell you, that there's not much new mall development going in the country. And we're -- we have good presence through the top 50 markets. So -- especially in Rack, we do think there could be opportunities there. So we continue to look at that and evaluate different possibilities, of some new store growth there.

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

Great. We'll take 1 more question.

Operator

Our last question comes from Paul Lejuez with Citi Research.

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

Just curious on the New York store. If you saw any sort of a lift when the big store opened, if you saw a lift on the Men's Store. Also curious about the consistency of performance of that store relative to the rest of the chain. And also curious, if you can comp in that store once you anniversary what perhaps was a honeymoon period when the store first opened?

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

Yes, this is Pete. As you might imagine, we've got a significant lift in our men's when women's opened. And we knew that would happen all along. The synergy lends itself to that. But it actually exceeded our expectations. We got very good lift in men's, and that's performed well. I want to make sure I understand the second -- that second part was about the consistency of performance?

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

Yes. Just fluctuations week-to-week, how consistent is the performance of the traffic in that store. And how does that compare to the rest of the fleet, which you saw during the quarter.

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

Well, we're learning stuff. I mean, it's a different market there. And the fact that we were able to open up men's before women's helped us understand some of the rhythm of the business. But I think for us to ultimately maximize the full potential of the business that we can do, I think the biggest thing is to understand when the real busy times are, how to serve people really well, and a lot of that just has to do with flowing in the product in the appropriate way. And I think we felt good about holiday this last year, but I can tell you that the general consensus was, well, that was good. We know a lot more now and holiday will be better next year.

So I guess, I would just say that it's really -- check back in with us maybe after a year of doing business there as we understand the rhythm of the business better and where we think the big opportunities are.

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

Got it. And just 1 follow-up. That 80 basis point lift that you talk about, what sort of investment from an SG&A and CapEx perspective is required to achieve that 80 basis point lift that you spoke of?

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

Market strategy.

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

How much investment for it to roll out market strategy? It's a very light investment. Very light. The local stores, the local service hubs, as part of market strategy, those stores are not very expensive to build out. The leveraging of our Rack stores, often, those are existing assets. It's very little expense to add those services in those stores. So I would say it's light.

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

Again thank you for joining today's call. A replay, along with the slide presentation and prepared remarks, will be available for 1 year on our website. Thank you for your interest in Nordstrom.

Operator

This concludes today's teleconference. You may disconnect your lines at this time, and we thank you for your participation.
