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PRESENTATION

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

Good afternoon, everybody.

A connected ecosystem drives retail closer to you. We're here with Nordstrom; Erik Nordstrom, the CEO of Nordstrom; and Anne Bramman, the CFO of Nordstrom. I'm pleased to welcome them both. Erik Nordstrom is Nordstrom's CEO. He previously served as co-President of Nordstrom. And Anne Bramman is Nordstrom's CFO. She joined Nordstrom in 2017 from Avery Dennison, where she served as CFO since 2015. She's also been the CFO at Carnival Cruise Line and Henri Bendel.

At Nordstrom, we have a \$38 price target on 15x. They reported earnings last night as well as sales improved 13% below what -- first quarter '19, and EBIT margin also improved. Management reiterated their outlook.

So thank you so much, Erik and Anne, for joining us here. Excited to have you.

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

It's a pleasure to have -- to join you as well, Oliver.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. Thanks for having us.

QUESTIONS AND ANSWERS

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

So it sounds like first quarter ended with nice momentum which has continued in the second quarter, especially with your [Southern] (corrected by company after the call) stores improving. What's your sense for how the summer months can unfold? We're quite optimistic. I'm seeing so much more fashion customers are restocking. And what data points do you look to assess the improving health of the business?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

I think there's 2 general data points that are encouraging. One that you mentioned is kind of the geography as regions that have opened up sooner. And for us, it's been that the Southern part of the United States is quite a bit ahead, 7 to 10 percentage points ahead of our Northern stores. And we expect the Northern stores would follow as things open up. And some of that has been certainly mandates loosening but not all of it. Some -- it's just people getting out. I just -- I think it's just ready. We hear a lot about weddings and a lot about other events. So there's the geography part,

but the other is -- kind of with weddings, is categories. It's been a pretty dramatic shift in categories. A number of our big categories had real headwinds during the pandemic. It's, while -- our mix has shifted, casual, more active, more home. We've had some good success there. There are still some big categories that are higher stakes dressing where we know we're top of mind for customers to come and to have things like weddings, to have dresses, to have -- even just going to a restaurant. That's really encouraging for us.

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

Anne, what about inventory? Can you talk to the health of inventory at both brands and your ability to chase in the current environment?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. We are really pleased with how we're starting second quarter. We talked about a couple of months ago that we had -- we entered the quarter, Q1, with too much inventory. So the team worked incredibly hard to work through that. And we feel really good about what we've got from assortment. It's very relevant. It's on target of what the customer demand is. And it's in the right -- it's very good seasonal inventory as well. And it is part of seeing what was going on. I think we've all heard about the macro environment from a supply chain disruption. Between that and demand, we really -- we pulled forward some of the receipts in order to land that early in the quarter. So we're being very thoughtful and proactive with our partners on this but also making sure that we can meet the demand that's out there, as Erik just talked about, as we see things opening up this summer.

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

Erik, I'm really excited about the local market strategy and what you've done over the years and accelerated. With the reopening upon us, what do you think positions Nordstrom to take outsized market share and opportunities to win in this competitive landscape as you think about assortment, advertising or anything else?

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. For us, let's start with our model. Our model is really grounded in 2 brands, Nordstrom and Nordstrom Rack; and our digital and physical capabilities. And you reference our market strategy. Our market strategy really comes from looking at these capabilities -- these assets we have, as opposed to looking at how do we drive a store business or how do we drive our e-commerce business. It's really how do we leverage those digital and physical assets to engage with customers more. And that word, engagement, it's important -- it may seem subtle a word, but it's been a pretty significant shift of -- I've been doing this a long time -- and especially in stores. In stores, we would look at metrics like sales per square foot, really look at that productivity of making that sale at that moment. And what we know now is we have this opportunity across this ecosystem we have of Nordstrom, Nordstrom Rack, stores, online. And engaging with customers is just good, whether there is much of a sale made in that moment or not. We know that most of our customer journeys start online, and that discovery process is really important.

And for us, we're not a price promotional retailer. We don't have 1-day-only sales to drive our traffic. Our business, we're at our best. It's really driven by newness and that discovery part of getting something new, having an interest in the latest brands. We were talking, before we went live, about our Fear of God pop-up shop that started, an interesting, very relevant, new streetwear brand that we have the opportunity to introduce to a lot of people. That's really important for us, and so to have these touch points across -- and we've worked a lot and have invested quite a bit over the last couple of years not just in building out our digital business. And we were over-half e-commerce business last year and were 46% in the first quarter. So it's this big, robust business for us in both Nordstrom.com and Nordstromrack.com, but we invested a lot into connection points there. Market strategy goes to that in particular and again viewing it through this lens of how do we engage with customers on their terms. And we see that as an advantage for us. We can get a bigger selection in our categories to customers with faster delivery and the delivery on their terms than really anyone else.

And then the other part, the merchandise offering part. Our offering is unique. It is the range of our offer to go from an off-price business to the robust pure designer business that we have at Nordstrom is an unusual range. It helps with customer acquisition. It helps with customer migration. One of my favorite stats is we are the #1 place for a customer to make their first designer purchase. And I like that because it goes to a couple things: number one, especially with designer -- a lot of designer can be done in the kind of an exclusive manner, almost some snob appeal to it. That's not our approach. Our approach is very inclusive, but it goes to our mix too of the high, low. We think that's how a modern customer dresses. And it makes that introduction of a first designer purchase more natural and more comfortable for customers. And so those are things, some of the pieces that we think are pretty unique to us.

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

Very helpful. And Nordstrom has always been an inclusive place to shop with excellent service. And what about merchandise margins for the remainder of the year compared to 2019? How would you characterize an opportunity here? And what levers do you have to pull? It's always fairly promotional. On the other hand, the environment has very robust consumer demand as well.

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So Q1 was particularly tough for us. We knew going into the quarter that we had some inventory overhang that we needed to get through, so we knew it was going to be a particularly tough quarter. As we talk about, we do see improvements in merchandise margins for the rest of the year. And as you said, we're starting with a very clean inventory position, and we are seeing a lot of customer demand out there. And so we feel like with having a relevant product, the right product to support the customer demand is really going to help the margin profile throughout the rest of the year. So we're really excited about the reopening of the country. And we're also really excited about Anniversary Sale because we think it's also another opportunity to really celebrate with our customers as we all emerge from a pandemic.

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

Yes, Anniversary Sale is a marquee event, an important time of the year for Nordstrom. Maybe you can just highlight some differences this year versus other years that we should think about.

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. Well, I would start with last year because last year forced a lot of change on all of us and certainly it played out in Anniversary as well. It was a step change in -- significant step change in it being more of a digital event because of store traffic being compressed. And so we added one feature in particular, this product preview wish list feature where customers could go in and build a list of the Anniversary product they wanted before the sale started. And it didn't sound like all that sexy of a feature. The engagement with it was really way beyond what we expected. So again it goes to, especially in these big events, our customers like to start the journey online. And so we have that capability, but the difference this year is stores are back. And we think the timing of Anniversary really fits well with things opening up and people getting back out there again. And there's going to be -- I think we've already heard a number of customers. They're just happy to go back in their store and visit with their favorite salespeople. And we've added digital selling tools for our salespeople, our engagement with our salespeople is ramping up quickly. And so that discovery of Anniversary product using digital tools that we're starting to see last year and connecting it to our salespeople this year, we think, will really be well received by customers.

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

Excited about that. And those lists were awesome to prepopulate. And if we could talk about SG&A opportunities over the next coming quarters: A hot topic is inflation and managing that across many buckets, so what are some levers you can pull there?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. So just to get more grounded on our SG&A component to it: Last year, during the challenging times we had, we really took a step back and said, what do we want to be as a company coming out of pandemic? And I think you're seeing a lot of the initiatives coming out, the digital-first component to it. And we really talked a lot about the path forward in our investor event back in early February. I think, coming in -- so we took over \$400 million of overhead costs out of our cost base last year, with 75% of that sticking permanently going forward. So that gave us a really nice base to work on as we started '21. The -- as you mentioned, there are some -- we are, everyone is seeing this in the inflationary side between supply chain disruption, labor costs and freight costs. And we're certainly seeing it in our business as well, but I think there's one thing we've all learned from last year to this year. While we had different pressures last year and cost pressures this year, the thing we've all learned is we've got to be flexible and agile in working through this, so we're pulling a lot of levers to go through. And we're looking at everything from how do we position inventory closer to the customer. How do we leverage regional carriers? How do we make sure that we're getting the right staffing to support our customer base but doing it in a way that's right for our brand as well? And then also just really looking for other areas of productivity. So it's not either-or, but it's we know there's levers to pull and we're pulling those levers as we go. And we're staying really thoughtful and flexible about it as we see the year progress.

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

A related question, just overall EBIT margin outlook of 5% to 6%. How would you contextualize opportunity in GM versus SG&A and achieving the low end versus high end? Any thoughts and more depth on that long-term opportunity?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes. I think, when you go back and look, as I mentioned, we've rebased our fixed cost structure. So I think one of the things that's really illustrative of this is when you look at what it would take to deliver that margin component, that 2019 margin. It's on \$1 billion less of sales. And vice versa, if we deliver the same amount of sales in 2019, you would see us really exceeding or hitting or exceeding that target as well. So that flow-through component is really beneficial for us as we move forward. It doesn't mean that we've stopped investing in the business because we are continuing to make normalized investments and really focus on technology and supply chain as we see our digital business continue to grow; and leveraging our physical environment, our markets to really serve customers as well. So when I look at the different buckets, I -- there's puts and takes across the board, but what we do know is that, depending on what the top line is, we can get that flow through to the bottom line.

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. I would add just on the gross margin piece, the merchandise margin piece. The path we've been on, and we still have a ways to go, is on shared inventory. We've seen we really connect to that in our full-price business, so a lot of inventory efficiency. And we're early innings in our off-price business in doing that. It's a big part of market strategy is that shared inventory, but it's also getting the inventory closer to the customer. We can -- not only can we get a bigger selection to the customer faster, which is all good, but there is a clear causal relation to margin in that. Days matter and it helps margin. It also helps in the returns. We get our returns back faster when we line up more physical locations for customers to do returns. So our Rack stores can now take returns of any Nordstrom.com purchase, at 250 locations. We have our Local service hubs. These things get not only order pickups more on customer terms. So we get returns back faster, which helps margin as well.

The other piece around the margin that I'd call out is you've heard us put the stake in the ground that we see our -- the wholesale part of our inventory going from 85% to 50% over the next couple of years. And what increases is, one, our own products that we make, but secondly is alternative partnerships with our vendors. It could be drop ship, which is what it's predominantly been to date, but we see a lot of opportunity. And there's a reception on the vendor side that I think the pandemic accelerated to step back and look at kind of the global supply chain and the risk that can go with inventory in the pipeline and how can we address it together. And we see a lot of opportunities there to do some different partnerships than we've had in the past that will take risk out of inventory, get us the selection that we know our customers want and improve our margins.

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

Rack has a large opportunity in many ways. Could you discuss early progress as you convert some of these stores into hybrid or price stores? And what learnings can you share as you look to unlock this medium- to long-term opportunity?

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. We see a lot of opportunity to grow our Rack business. While we have about 250 stores, there's -- a difference with the off-price business to the full-price business is there's still a lot of growth in stores there. You look at the 3 big players in off-price business all have hundreds and hundreds of more stores than we do. So we see opportunity there, and the -- our model supports it. The demographics support some store expansion, but we also think there's comp store opportunities, to your point, on expanding our price range. We see hybrid stores that's adding some lower-price merchandise to what we have already, and we see some stores as being price stores of -- more fully moving there. We're really early on that. We have not had the full merchandise offering that we want as of yet. While there's been some supply chain challenges of getting that merchandise in.

And so really one of the learnings -- and I mention this because I think it goes to what's a little unique about us, and again it's this range. Nordstrom Rack, a big part of the appeal for customers is the Nordstrom part of it, that there is a legitimacy of the brands in the treasure hunt. And we have -- 95% of our full-price brands are in our Rack business. And so while we add some lower price, we still have -- there's brands that are big brands in our full-price business that customers come to us at Nordstrom Rack, so we want to carry those no matter what. And we have -- that's been proven out the last quarter, that as we've added some more price merchandise, it doesn't cannibalize some of the -- in that channel a little more higher-priced merchandise. And so it's really an "and," and not an "or" story. The other piece of -- in Rack growth is the digital growth. Nordstromrack.com is an unusually large online off-price business, and it's unusual because it's hard to make money online off-price. The lower price points put a lot of pressure. Our path to -- getting there are really focused on getting the EBIT flow-through in our online off-price business to be at parity with our store business, which we have done at Nordstrom.com with Nordstrom stores. And the path there is more connection. How do we leverage our stores, things like returns? Over 80% of [Nordstromrack.com] (corrected by company after the call) returns go to a Rack store. Customers like it. It's better for us too. And what we're in the midst of right now is migrating our Nordstromrack.com platform to our Nordstrom.com platform. We have a shared platform. There's a lot of efficiencies there.

So having this online off-price business attached to the mother ship and leveraging the platforms helps our economics. And we know there's a lot more demand there; that if we can improve our economics even a little bit, we can twist the dials on things like digital marketing. And all of a sudden, some investments there start to make more sense, so we think there's a lot of growth to be had.

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

You're also really well positioned, in Cowen's view, with a lean store base in some of the best malls in the country. As the environment normalizes, what do you think about physical traffic growth? What are some things in your control? And how do you expect the mall stores will play in your ecosystem?

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. I would agree with this statement. It's we're -- fortunately, we have 100 stores and they are at really good locations. So the -- we did have 16 stores that we didn't reopen last year, and almost all of them were the smallest store in a multi-store market and which means it's probably the least-competitive mall that we were in. And we get good sales transfer when that's the case or able to pick it up our existing locations. We feel pretty good about it. And it's now -- retail locations go through their cycles. And so I -- we do when our leases come up. We take a look at them. And historically we've closed 2, 3, 4 a year. I think that's probably reasonable to expect, but we don't see a big chunk having to do that.

The piece that I think is, for many, less clear, and we have a point of view on this but -- are the big downtown stores. Downtowns have been particularly hard hit during the pandemic. You remove tourists. You remove office workers. That's tough on the downtowns. And there's a view that, "Will office workers come back?" For us, New York would be the biggest one. And we were talking before the call. We're really starting to see that. I don't want to make too much of recent, but in the last 6 weeks, our traffic growth there has been about 5x what we've seen in the rest of our stores. And you can see it. You were talking about it, Oliver, of it's starting to come back. And I wouldn't bet against New York. I think that's going to come back well. And where we're sitting with you today, above our downtown Seattle store, Seattle has had a tremendous run over the last 10 years in particular and has got hit hard with the pandemic, but Amazon is a couple blocks from us. And they're -- they've made a pretty strong statement that they're bringing their workers back in September. And we will be starting to bring our people, folks back then in September. So anyways, I think, the downtowns, while they're -- it's a different, much different dynamic than the malls, we're pretty optimistic on those as well.

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

Yes. So I wanted to ask about supply chain. We're asking every management team this. As the retail ecosystem continues to transform, what do you view as your top supply chain priorities?

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Do you want me to start?

Anne L. Bramman - Nordstrom, Inc. - CFO

Yes, go ahead.

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Okay, all right. There's a lot going on in supply chain. And for us, it's a key part of -- which I've touched on a bit, of getting our inventory close to our customers, utilizing our stores. We've been opening some supply chain facilities that -- fill in gaps for us, particularly in Southern California, that allow us to have faster delivery with a bigger selection for our customers. So not only just getting it closer, but that inventory positioning, which is part of our market strategy -- and that part, most still to come, things like placing extra inventory in stores than -- more than what the store sales suggest you need, but it gets us that inventory closer to our customers and faster delivery; and things like buy online, pick up in store, which is growing dramatically for everyone, I think. And also we see some opportunities for some of our SKUs to have inventory holdback to really where historically our store supply chain has been, in bulks, has been in cases. And really the supply chain we're building out is treating everything the same, which is like we treat for customers; eaches, where we can fill-in stores one at a time on a daily basis. For the breadth of SKUs we have, there's a lot of efficiency there. We also see opportunity in store fulfill efficiency with more and more of our orders being filled in our stores. And we just started in our Rack stores. We see opportunities to -- through some technology and process to continue to get more efficient there. And last thing that I wanted to call out would be the use of regional carriers. Transportation has some headwinds these days, and we see opportunities to continue to use regional carriers to help with that last mile or even middle mile.

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

And our final question is, how do you think about your ESG priorities in the context of demand creation? As we believe many new customers are much more attuned to environmental and social issues. And I know Nordstrom has been a really strong leader in diversity and inclusion as well.

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Yes. It -- we really feel strongly that -- for all those ESG subjects. The most important thing is to not have them in a silo separate from the business, but it's to ingrain them in the business. And that's been a change from the customer standpoint. It's been a number of years where it's been clear that employees and prospective employees care a lot about these subjects in making their employment decision. It was less clear from customers till the last couple of years. And it's every meeting I'm in with our merchants, it's just a natural subject of looking at product. And it's particularly emerging product, emerging brands that come in to have a story there. And it's I mentioned earlier I think we're at our best when we're a place of discovery. And being a place of discovery, a big part of that is telling brand stories. We believe in brands. We think brands in fashion are important and allow us to tell a brand story that creates interest in customers buying something new. And the sustainability stories with brands is something I think our teams are really good at communicating with customers and again is moved from a something that's on the agenda. It's just smack dab in the middle of the business.

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

Well, that's a great note to end on, Erik and Anne. Congrats on the continued momentum and also really fostering an environment where you help brands be their best and grow and deliver great service and talent across many stakeholders. Thank you for your time.

Anne L. Bramman - Nordstrom, Inc. - CFO

Thank you.

Erik B. Nordstrom - Nordstrom, Inc. - CEO & Director

Thanks, Oliver.

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