

Q1 2020 NORDSTROM EARNINGS CALL – PREPARED REMARKS

ERIK NORDSTROM

Good afternoon and thank you for joining us today. On behalf of everyone at Nordstrom, our hearts continue to go out to all those impacted by COVID-19. The past several months have been unlike anything we've ever experienced, and we've been working hard to continue to show up in a meaningful way for our customers, employees, shareholders and communities.

With health and safety as our priority, we temporarily closed our stores on March 17th to do our part to help limit the spread of the virus. Prior to the closures, we saw strong momentum from the second half of 2019 continue into February with positive sales growth. These closures had a meaningful impact on our financial results as stores made up two-thirds of sales in 2019. In our e-commerce business, sales grew 5 percent and reached more than \$1 billion for the first quarter. Online demand trends were consistent with the second half of 2019. While our stores were temporarily closed, our e-commerce business had more than 50 percent growth in customers who are new to Nordstrom.

We successfully strengthened our financial flexibility through early actions to increase liquidity and reduce our cash burn, which Anne will discuss further. With inventory as our biggest lever of flexibility, we reduced receipts by 30 percent during the first quarter, generated customer demand through increased marketing and promotions, and utilized our fulfillment capabilities to clear inventory held in our stores. These actions decreased inventory levels by more than 25 percent from last year, putting us in a favorable position to bring in newness starting in June. As we expect a heavy promotional retail environment through July, we shifted our one-of-a kind Anniversary event to August 19th to give customers the best experience. Early access for Nordstrom cardmembers will begin August 4th through August 13th, depending on their Nordy Club status. This unique event will feature new arrivals at reduced prices for a limited time.

In Off-Price, we cancelled receipts beginning in March through the second quarter, allowing us to take advantage of closeouts in the marketplace this fall. Additionally, we can leverage our Off-Price business, which makes up a third of sales, to help clear excess Full-Price inventory.

To sum up the quarter, we increased our liquidity through proactive steps to shore up financing and reduce our cash burn. The significant reduction in our inventory levels enhances our financial flexibility and enables us to provide customers with a relevant merchandise offering across price points, brands, and key items. We're confident that we have sufficient liquidity to execute our strategy in 2020 and over the longer term.

We believe these unprecedented times are only accelerating the changes that were already well underway with our customers, including how they want to engage with digital and physical experiences. The flexibility of our business model allows us to stay ahead of these changes as we serve customers through our two distinct brands – Nordstrom and Nordstrom Rack – across stores and online. We see tremendous synergies from this model. When customers shop across more than one of these touchpoints, their spend increases four to 11 times on average. Additionally, our Off-Price business continues to be our greatest source of new customers, and nearly 30 percent of Off-Price customers cross-shop in Full-Price.

Our unique mix of assets is a competitive advantage. In 2019, Off-Price and e-commerce accounted for nearly 60 percent of sales, and our U.S. mall-based full-line stores accounted for 38 percent while contributing positive cash flows.

As we anticipate an acceleration of these longer-term customer trends, we're taking proactive steps to move faster in executing our strategic plans, including optimizing the mix of our digital and physical assets. We're permanently closing 16 full-line stores and three Jeffrey specialty boutiques. In assessing customer needs, most of the impacted stores are in markets that have multiple full-line stores and are more than 20 years old. We're also accelerating the integration of our Trunk Club business into a cohesive Nordstrom styling offering across stores and online. As retail continues to evolve, our flexible model supports a continued shift from what was

predominantly a mall-based business toward a more diversified model that includes digital and off-price.

Our market strategy remains our priority for gaining market share and increasing inventory efficiencies in our top markets. We're bringing greater merchandise selection and faster delivery to customers while increasing engagement through our services. Having a mix of full-line stores, Racks, and Nordstrom Locals —and connecting these physical assets seamlessly with an online experience—gives us a distinct advantage in serving customers on their terms.

Previously, we announced plans to create a leaner and more flexible organization. To that end, we're combining our Full-Price and Off-Price teams across regions and functions to leverage our business. We're also reducing the size of our corporate teams to increase agility. And finally, we're continuing to invest in critical capabilities across technology, data analytics, and supply chain. This includes scaling our end-to-end platforms to support a single view of customers, inventory and product – and integrating physical and digital capabilities in Off-Price.

Earlier this month, we began taking a thoughtful, phased approach to our store reopenings. Our decisions are based on where openings are allowed by state and local governments, when we're prepared with the right safety measures and protocols, and when we believe that we can provide for the safety and wellbeing of our employees and customers.

We currently have around 40 percent of our fleet open, and we offer contactless curbside pickup services in most full-line stores. We'll continue to adjust and refine our approach as we learn more about this new environment. We've also been incorporating feedback from our customers – and are humbled by their support and response throughout this process. While most of these stores have only been opened for less than two weeks and are located in our smaller markets, we're seeing some encouraging early reads with overall sales trending slightly ahead of expectations.

Our investments to connect our digital and physical experiences continue to serve us well, and the impact of COVID-19 is only emphasizing the importance of these capabilities. In Full-Price, we've had store fulfillment capabilities in place for over a decade, which generally supported 20 percent of online units. This ramped to more than 50 percent while our stores were temporarily closed, contributing to our reduction in inventory.

In mid-April we enabled store fulfillment in Off-Price, which includes a robust e-commerce business exceeding \$1 billion in annual sales. This enhanced the customer experience by expanding merchandise selection to inventory located in our stores, leading to customer demand and traffic increases. Since enabling this capability, about 25 percent of Nordstromrack.com units are being fulfilled from Rack stores.

In March, we leveraged our existing infrastructure and resources to launch a dedicated e-commerce site serving our customers in Canada with all orders fulfilled from stores. Both customer response and sales have well-exceeded expectations. Online sales are about 10 times the volume we previously had under our third-party e-commerce provider.

We believe one of our most important responsibilities is supporting the people who support us, including our customers, employees and communities. We can't thank our employees enough for all they do to care for our customers. We're taking precautions to create a safe work environment and are supporting our employees who are not working at this time. For our unscheduled and furloughed employees, this includes extending medical benefits and partnering with several companies for temporary work opportunities. To support our communities, we're leveraging our alterations teams across the country to sew nearly 1 million masks for healthcare workers.

We believe our relentless focus on the customer remains our key point of difference, and we're energized by the opportunities ahead to provide a best-in-class experience. The strength of our

culture and the loyalty of our customers have sustained us through tough times. We're also grateful for the dedication and commitment of our teams, who have made us nimbler and more flexible than ever before. We're confident in our ability to emerge in a stronger position to serve customers and as a leader in the market.

I'll now turn it over to Anne to provide insights on our financial results.

ANNE BRAMMAN

Thanks, Erik. As we discussed last quarter, we finished 2019 in a strong financial position, accelerated sales trends in the second half, and demonstrated our inventory and expense discipline. This momentum continued into February, with sales tracking ahead of our guidance expectations for the month. In March, as the impact of COVID-19 began to unfold, we took immediate steps to strengthen our financial flexibility by increasing liquidity, realigning inventory, and lowering our overhead costs. The effectiveness of these collective actions adds to our confidence that we can emerge from this crisis well-positioned to gain market share.

We started the year with \$850 million in cash and increased our position to \$1.4 billion by the end of Q1. We took early measures to increase liquidity and reduced our cash burn by more than 40 percent from March into April. We suspended dividends and share repurchases, amended and drew down \$800 million on our revolver, and issued \$600 million in secured debt.

We're continuing to make reductions to our base cost structure. As a reminder, our initial plans for expense savings of \$200 to \$250 million included end-to-end productivity improvements in overhead, procurement, and generational investments, in addition to greater fulfillment and marketing efficiencies. In response to COVID-19, we're also executing further cash savings of more than \$500 million for the year. This is net of COVID-19 charges and evenly allocated across operating expenses, capex, and working capital, which includes realigning inventory. Our total expense savings represent a reduction in non-occupancy overhead costs of roughly 20 percent on an annualized basis. This includes \$150 million in lower fixed labor costs for the year resulting from our transition to a leaner and more agile organization. We're on track to deliver on our initiatives and realized approximately \$100 million in gross savings in Q1.

As Erik mentioned, inventory is our largest near-term lever of flexibility. In mid- March, our teams moved quickly to realign inventory, reducing receipts by approximately 80 percent in April and May. We leveraged data to analyze our inventory content and composition, including

the seasonal nature of certain items. We ended the quarter with inventory down more than 25 percent from last year, which reflected a 15 percent reduction in units. We're planning to realign inventory by Q2, excluding the Anniversary shift.

We take our responsibilities to ensure the long-term health of our business seriously. We're keenly aware that our decisions impact all stakeholders, including our customers, employees, and shareholders. We value the relationships we have with our business partners and strive to be a partner of choice for our vendors. We gave our vendor partners advance notice of extending payment terms. Additionally, we paid rent through May, so there are no meaningful deferrals of cash payments at the end of the quarter.

While our long-term capital allocation principles are unchanged, our current financial priority as we navigate through this crisis is to preserve liquidity and maintain our investment grade credit rating. We're committed to getting back to our adjusted debt to EBITDAR leverage targets of 1.5 to 2.5 times and paying dividends over the long-term. Our investments to connect our digital and physical experiences are paying off, and even more so during these unprecedented times. We reduced our annual capex plans by roughly 30 percent by prioritizing technology and supply chain investments.

Now I'd like to provide additional insights into our first quarter results. Our loss per share of \$3.33 and EBIT loss of \$813 million included charges related to COVID-19 of \$1.10 or \$280 million. Roughly half of these charges related to non-cash asset impairments resulting from our permanent store closures. The remainder related to premium pay and benefits, and restructuring charges, which were slightly offset by credits from the CARES Act. Excluding these charges, two-thirds of the EBIT margin decline relative to last year came from deleverage on lower sales volume and one-third came primarily from incremental markdowns.

In the first quarter, total company sales declined 40 percent as our stores were temporarily closed during half of the quarter. Full-price was down 36 percent and Off-Price was down 45 percent. Full Price results benefited from having a more established e-commerce business, including store fulfillment capabilities, which we enabled in Rack stores late in the quarter.

While our stores were temporarily closed, online traffic and conversion trends increased notably in Full-Price and Off-Price but were partially offset by lower average selling price. Online demand, which is an indicator of underlying trends, grew by 9 percent in Q1, consistent with the second half of 2019. Our online sales growth of 5 percent included the timing impacts of unshipped orders and estimated returns. Since most online returns are done in our stores, these sales reflect higher reserves for these projected returns.

We leveraged our marketing and promotional capabilities to stimulate sales and appeal to customer interests during these times, including a series of targeted promotions to clear seasonal inventory. Our digital experience highlighted relevant categories such as wellness and comfort, which contributed to top performing divisions in home, sleepwear, and active. As we anticipated, our softest divisions were men's apparel, dresses, and designer apparel.

Moving to gross profit, our rate was 11 percent, down from 34 percent last year, and reflected merchandise margins in the high-twenties range. Roughly half of the gross profit decrease related to incremental markdowns, including a higher reserve adjustment of around \$75 million. The other half was due to deleverage on occupancy costs and planned markdowns. As stores continue to reopen throughout our industry over the next several months, we expect to see an elevated promotional environment. Our favorable inventory position enables us to bring in newness beginning in June for Full-Price. We're also able to leverage our Off-Price business to clear excess Full-Price merchandise while being opportunistic in the marketplace for fall closeouts.

In SG&A, expenses of \$1.1 billion were slightly lower than last year. Excluding COVID-19 charges, SG&A decreased by roughly 25 percent. About three-quarters of the decrease was due to lower volume and one-quarter was due to immediate actions to reduce overhead labor costs.

Our first quarter results reflected strategic actions that will have a greater benefit on our cash burn and cost structure through the rest of the year. Based on our current outlook and the actions we took in Q1, we're currently approaching break even from a cash burn perspective and expect to reach this point by the end of Q2.

As we continue to navigate through this uncertainty, we're taking a cautious and thorough approach in planning our business. Our scenario plans and stress testing contemplate a slow recovery and a continued promotional environment. While around 40 percent of our stores are currently open, they are in relatively smaller markets. We're planning to have our full fleet reopened by the end of June, including stores in California opening over the next couple of weeks, followed by New York.

While we're taking a conservative approach to planning, we expect continued improvement in underlying sales trends and merchandise margins. Relative to Q1 excluding COVID-19 charges, earnings are expected to improve sequentially throughout the year. In Q2, the shift of the entire Anniversary event into Q3 is about 10 percentage points. While we're planning improved merchandise margins and further expense savings in Q2, this will be more than offset by deleverage from the Anniversary shift.

As we plan for this "new normal" environment, our model will continue to flex and evolve with changing customer expectations. We have accelerated our long-term strategic plans by optimizing the mix of our physical and digital assets and increasing our agility through a leaner organization. As we emerge from this crisis, our focus remains on gaining market share while

driving top-line growth and improving profitability. We look forward to providing an update on our strategy and long-term financial outlook at our investor day this fall. We believe our financial flexibility – coupled with our business model to serve customers on their terms – positions us for success over the medium and long-term.

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