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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Nordstrom third-quarter 2024 earnings conference call. (Operator Instructions) And as a reminder, this conference is being recorded.

At this time, I'll turn the call over to Jamie Duies, Head of Investor Relations for Nordstrom. Thank you. You may begin.

James Duies - Nordstrom Inc - Head, Investor Relations

Good afternoon and thank you for joining us. Before we begin, I want to mention that we'll be referring to slides, which can be viewed in the Investor Relations section on nordstrom.com. Our discussion may include forward-looking statements, so please refer to the slide with our Safe Harbor language.

Participating in today's call are Erik Nordstrom, Chief Executive Officer; Pete Nordstrom, President; and Cathy Smith, Chief Financial Officer, who will provide a business update and discuss the company's third-quarter performance.

Please note that when discussing our results and outlook, we will be referring to them on an adjusted basis for EBIT, EBIT margin and earnings per share. Reconciliations to the most directly comparable GAAP measures can be found in our Q3 2024 earnings press release, which is available on our website.

As we begin, I want to acknowledge the company's prior announcements regarding the Board of Directors' exploration of potential avenues to enhance shareholder value, the formation of a special committee to evaluate any proposal that might be presented by members of the Nordstrom family to take the company private, and the receipt of such proposal on September 3. We will not be commenting on this topic or speaking to this matter during our call today.

I'll now turn the call over to Erik.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Thank you, Jamie, and good afternoon, everyone. Thanks for joining us today. I'll start with our third quarter performance and discuss the progress we have made against our three priorities and finish with some comments on the current retail environment.

In the third quarter, our efforts to enhance the customer experience continued to resonate, enabling growth in net and comparable sales, margin expansion, and an increase in our customer base. We delivered solid results with net sales reaching over \$3.3 billion, along with earnings per share of \$0.33.

Both Nordstrom and Nordstrom Rack delivered 4% comparable sales growth. We're particularly encouraged that our online business sustained its momentum with digital sales growth of over 6%. Customers responded to newness in our selection of the brands that matter most to them, driving positive total company net sales growth for the fourth consecutive quarter.

Moving on to our three priorities for the year of driving Nordstrom banner growth, operational optimization, and building on the momentum at the Rack.

Driving Nordstrom banner growth is a key part of our strategy, and we continued to make progress during the third quarter. A curated selection of merchandise with greater depth in our customers' favorite brands across our fleet, and not just in our largest stores, helped drive the results.

As an omnichannel retailer, we have to be prepared to serve customers when, where, and how they want to shop, and service is always our number one priority. Our customers define what good service is, not us, and our teams are very focused on taking care of each and every customer who shops with us. We take this commitment to serving our customers seriously, from the initial greeting to providing assistance and a point of view at the fitting room to completing the sale. For our customers that prefer to shop online, we aim to make the experience seamless and engaging through technology.

At Nordstrom.com, net sales growth in the third quarter was supported by enhancements to the search and discovery functionality on our site and in our app as well as improvements in our assortment, especially of items under \$100 in price.

We continued to scale our Marketplace business in the third quarter, which now has over 300 sellers offering a wide selection to our customers. We look forward to continuing to grow this business in 2025 and beyond.

Another key priority for this year is operational optimization. Given the progress our supply chain team has made on reducing operating expenses, they have expanded their focus to increasing speed, by quickly getting orders to our customers' doorsteps and moving product efficiently through our network to provide relevance and freshness. We know our customers desire speed, which can improve the customer experience as well as our financial outcome.

For example, faster fulfillment and delivery of items drove an over 40% improvement in the speed of customer returns in the third quarter. Returns that come in faster mean that we can process, inspect and get the items back into our inventory in a sellable condition in less time, increasing the product's overall full price exposure.

Throughout the year, the supply chain team's efforts have also supported our new Rack store openings successfully. More recently, they have positioned us well heading into holiday in terms of inventory flow, staffing, and shipping capacity.

We also continue to advance our priority to build on the momentum at the Rack during the third quarter. Our strategy of offering great brands at great prices continues to give customers a reason to choose Nordstrom Rack. In the third quarter, customers responded positively to our offering, driving net sales growth higher for the fourth consecutive quarter.

We also opened 12 new stores during Q3, bringing the full year total to 23, which is consistent with our plans to open 20 to 25 new Racks per year. New Rack stores continue to be a great investment for us as they deliver a solid return on capital while attracting new customers.

NordstromRack.com remains a differentiator in off-price retail, enabling customers to shop when and how they want. Rack digital sales growth in the third quarter was driven by an expanded online merchandise offering, as well as focused efforts to maintain high in-stock rates in our fastest-selling items.

Towards the end of the quarter, we launched store fulfillment for Rack digital orders in over 100 of our Rack stores around the country. Our efforts to improve the integrity of our inventory are enabling us to work towards optimizing that part of our store operations prior to expanding to our entire fleet of Rack stores.

We're also excited to have launched buy online pick-up in store at those same 100-plus Rack stores for the first time ever in the third quarter. This allows NordstromRack.com shoppers to purchase select items online and pick them up same day in their nearest Rack location. We're pleased with the early results of these new services and are excited about the opportunity to better serve our customers, drive sales, and expand margins.

Looking ahead, the fourth quarter is a significant one for us and provides us with the important opportunity to serve our customers. Across the company, our teams are focused on executing an exceptional holiday shopping experience with gifts for everyone at every budget, an enhanced digital experience, convenience services, and festive events, both in stores and online.

While we are excited about and well prepared for the holiday season, there was a noticeable decline in sales trends towards the end of October. As you'll hear from Cathy in a moment, we are updating our full-year guidance, which takes the slowdown into consideration.

In advance of this holiday season, I want to thank our teams across the company for their hard work and taking care of our customers during this busy time. We're excited about the season and wish everyone a happy holiday.

I'll now turn it over to Pete.

Peter Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Thank you, Erik, and good afternoon, everyone. My remarks today will focus on merchandise performance, our inventory position, and some highlights of what we have planned for holiday.

We know that our customers have a lot of choices when it comes to shopping, which is why we offer a selection of their favorite brands as well as new and emerging ones, enabling the discovery of new looks and styles.

In stores, merchandising is all about curating an assortment of our best brands that appeal to our customers. This year, we've edited out some brands in order to amplify the best ones, to create focus and a point of view in our stores. In our digital business, we aim to serve more customers on more occasions with more choices. We're encouraged that our teams are executing well on both of these merchandising strategies.

From a total company perspective, the top-performing categories in the third quarter were women's apparel, active, shoes, and men's apparel. I'll first cover our merchandise performance at each of our banners.

In our Nordstrom banner, we've been focused on building selection and depth in our customers' favorite brands across all stores, particularly in women's apparel this year. In the third quarter, leading brands such as Vince and Veronica Beard helped drive mid-teens growth in this category.

Active, which includes apparel and shoes, continued its impressive run as a top category at our Nordstrom banner. Relevant brand offerings drove low teens growth, led by some of our customers' favorites such as On Running, HOKA, and Vuori.

The shoes category is an important one for us, given our company's history, and it performed well in the third quarter. One of the contributors to the growth was our Make Room for Shoes campaign, which highlights certain of our customers' favorite brands with new and unique inventory each month. The third quarter strength in women's shoes was fueled by notable sales increases from brands, including Stuart Weitzman, Veronica Beard, and Vince.

Men's apparel, another important category for us, rounds out our top performers in the third quarter. Similar to our efforts in women's, we have focused on providing more consistent assortments and increased selection across our fleet of stores. In the third quarter, men's apparel growth was driven by dresswear and contemporary styles.

At the Rack, our strategy of offering great brands at great prices resonated with customers in the third quarter, driving double-digit top line growth. From a merchandise perspective, in women's apparel, premium denim and dresses were strong performers in the third quarter. The active category sustained its double-digit growth driven by active shoes. In men's apparel, sportswear drove the largest volume game. And rounding out the top categories in Q3 is shoes, which was led by casual sneakers.

I'd like to also make some comments about our Nordstrom private brands, which are available at both banners. We continue to be pleased with the customer response and performance. In the third quarter, Nordstrom, Zella, and Open Edit were strong performers, helping to drive double-digit growth in sales of our private brands as customers recognize the quality, style, and value of our offering.

Moving on to our inventory position at the end of Q3, which grew 6% year over year versus 5% in sales. Inventory growth in the third quarter was partially driven by some seasonal categories such as boots, sweaters, and outerwear that were slower in some parts of the country.

At the Nordstrom banner, our inventory is highly penetrated with our best brands and consists of lower clearance and aged inventory versus a year ago. At the Rack, inventories are higher than last year, yet also over-indexed to the best-performing brands.

Driving the growth is the inventory needed to ramp up our new Rack stores as well as an increased selection available on NordstromRack.com, where we've added over 30,000 customer choices to the site. While our inventory growth in the third quarter was slightly higher than we prefer, we continue to feel good about the content of our inventory.

Turning to a few of the highlights of what we have planned for holiday, we're excited about the season and the opportunities that lie ahead for us in the fourth quarter. This year, we're making our customers' holiday shopping easy and fun, prioritizing a well-rounded assortment across both banners that blends relevance and inspiration at all price points. We recently launched our 2024 holiday catalog with items focused on gifting and holiday dressing.

In apparel, sweaters are a key gifting item and our teams have curated a great selection. In beauty, the teams have been focused on making Nordstrom the destination to shop for luxury fragrances this holiday season, building on momentum in this area.

At the Rack, we're invested across categories and price points to offer customers a relevant selection of great brands at great prices. As Erik mentioned, we're making it easier to shop with the addition of buy online pick-up in store in over 100 of our Rack locations. We're also introducing Rush the Rack, an exclusive new app feature for Nordy Club members, notifying them about the newest in-store merchandise arrivals so they can be the first to shop.

We're hosting experiences and events to celebrate the holiday from virtual events with fashion experts, to festive in-store experiences across the country like Letters to Santa, Holiday Glam Up Days, the one-day only Beauty Bash, and more.

At our New York City flagship store, our special holiday activation includes hosting daily Santa Snow Shows, offering a holiday weekend brunch series, and starting tomorrow, we're unveiling The Blizz on 57th Street, which will feature larger-than-life talking inflatable characters throughout the store. We're excited to be providing customers with fun and engaging experiences this holiday season.

Before I turn it over to Cathy, I'd like to echo Erik's comments thanking our teams for the hard work that they do in providing service to our customers all year, as well as wishing them, and all of you, happy holidays.

We'll now go to Cathy for an update on our financial results.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Thanks, Pete, and thank you all for joining us. I'll begin by covering our third quarter-results, then discuss our outlook, and close with our capital allocation priorities.

In the third quarter, we again delivered solid results, with growth in net sales and EBIT, as well as margin expansion. Total company net sales increased 4.6% in the third quarter, driven by positive results at both banners. The timing shift of the Anniversary Sale, with one day falling in the third quarter this year versus eight days last year, had a negative impact on net sales of approximately 100 basis points.

Comparable sales increased 4.0% with positive comps in both banners and particular strength in digital channels. GMV increased 5.3% in the third quarter.

Nordstrom banner net sales increased 1.3%, while comparable sales grew 4.0%. The difference is mainly due to the use of a realigned calendar for comparable sales, which eliminates the approximately 200 basis point negative impact from the timing of the Anniversary Sale, which is reflected in net sales.

Nordstrom Rack net sales increased 10.6%, with comparable sales increasing 3.9%.

Digital sales grew 6.4% in Q3, representing the sixth consecutive quarter of sequential improvement. The timing shift of the Anniversary Sale had a negative impact on digital sales of approximately 100 basis points. Digital sales represented 34% of total sales during the quarter.

Gross profit as a percentage of net sales expanded 60 basis points to 35.6%, primarily on strong regular price sales. Ending inventory increased 5.9% versus a year ago. As Pete noted, the quality of our inventory is good, although the level is slightly higher than we want.

Selling, general, and administrative expenses as a percentage of net sales of 36.6% increased 25 basis points compared with 36.3% in the year-ago quarter. This was primarily due to higher labor costs and a charge related to accelerated technology depreciation that were partially offset by leverage on higher sales and improvements in variable costs across the business. SG&A expenses, after excluding the \$14 million in accelerated technology depreciation, decreased to 36.2%.

Our EBIT margin expanded 45 basis points to 2.9%, driven by a more than 25% year-over-year increase in the EBIT dollars in the third quarter.

Income tax expense of \$11 million, or 18.9% of pretax earnings, was higher than the 14.2% recorded in the year ago quarter. Last year's income tax benefited from the wind-down of our Canadian operations.

Third quarter EPS of \$0.33 is favorable to last year's \$0.25, largely driven by leverage on higher sales as well as the expansion of our gross margin.

We ended the third quarter with \$1.2 billion in available liquidity, including just under \$400 million in cash. Our balance sheet and financial position remains solid.

Before moving to our outlook, I'd like to offer some additional commentary on our third-quarter results and the current environment. Our efforts to improve the customer experience are taking hold, as evidenced by the strength of our top line. In the third quarter, we again grew our customer count, reported an increase in customer trips, and expanded our margins.

Our credit card revenues as a percentage of total revenue declined modestly versus Q3 of last year, continuing the trend that we've experienced all year. The decline was driven by higher losses partially offset by higher balances within the portfolio. This was consistent with our expectations.

Turning to the current environment and our outlook for the year. While we continue to be pleased with our year-to-date results, the external environment remains uncertain. As Erik mentioned earlier, we did experience softness in sales that started around the end of October. We also have a shorter holiday season by five days this year. And as a reminder, the 53rd week benefited fourth quarter net sales by 460 basis points last year.

When considering the puts and takes and appreciating that we typically realize about 30% of the full year's net sales and approximately 40% of our annual EBIT in the fourth quarter, we believe it is prudent to remain appropriately cautious with our outlook. As such, we are updating and modestly increasing our outlook for revenue and comparable sales for the year.

Our updated guidance includes: full-year revenue in the range of flat to an increase of 1%, which includes a headwind of approximately 135 basis points from the 53rd week in 2023's results. We now expect total company comparable sales growth of 1% to 2% in 2024 versus 52 weeks in 2023. As our fiscal 2023 included a 53rd week, we calculate our 2024 comparable sales growth using a realigned 52-week 2023 period for comparability.

Turning to profitability. We continue to expect a full year EBIT margin in the range of 3.6% to 4.0%. We continue to expect our effective tax rate to be approximately 27% for the full year. From an earnings per share perspective, we expect full-year results in the range of \$1.75 to \$2.05 excluding the impact of any share repurchases.

As a reminder, we continue to expect charges approximating 10 basis points to our reported SG&A expense as a percentage of net sales in the fourth quarter related to the accelerated technology depreciation we mentioned.

Our capital allocation priorities remain unchanged. We'll invest in the business to better serve our customers with high return projects, reduce our leverage, and return cash to shareholders. Last week, our Board of Directors declared a quarterly cash dividend of \$0.19 per share.

In closing, we are encouraged that our focus areas and priorities are resonating with customers, driving top line strength and expanding margins. I would also like to echo Erik and Pete's comments thanking the teams across the organization for their commitment and dedication to serving our customers, as well as wishing everyone a happy holiday season.

We thank you for your interest in Nordstrom. Jamie, we are ready for questions.

James Duies - Nordstrom Inc - Head, Investor Relations

Thank you, Cathy. Before we get started with Q&A, we ask that participants please limit themselves to one question and one follow-up. We'll now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brooke Roach, Goldman Sachs.

Brooke Roach - Goldman Sachs - Analyst

Good afternoon. Thank you for taking our question. Erik, can you speak to the health of the Nordstrom consumer by banner today? Can you elaborate on the drivers of the slowdown that you saw in late October? How have holiday sales trends been performing November quarter-to-date?

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Hi, Brooke. Yeah, let me talk about third quarter first. We saw good health for our customers across both banners and across income cohorts. We saw improved spend across all income cohorts, healthiest gains within our higher income group.

As far as the Q4 slowdown, really don't have a lot of information on that. It's a couple of weeks into the quarter, and we just thought that the prudent thing would be to share what we saw, which is a decline in trend there. But it's too early to pull that apart.

Brooke Roach - Goldman Sachs - Analyst

Great. And then as a follow-up, Cathy, as you look ahead, what do you see as the most important drivers of multiyear EBIT margin expansion? Are there any puts or takes we should be considering as you round out 2024 and move into 2025?

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Good afternoon, Brooke. First and foremost, the top line is always going to be the best contributor for EBIT margin expansion. We're off to a good start this year. If you think we're north of 4% year-to-date in top line growth, which is great. That's going to be our biggest contributor to continuing to expand EBIT margin in the future.

As we've shared in the past as well, we've got a little bit of work to do on a couple of areas that are clearly important as we moved, have moved to being an omnichannel retailer, namely supply chain and technology.

We want to make sure that we continue to invest there, but make sure that we start to gain the benefits of those investments as well as we move forward. Those are going to be our biggest opportunities for EBIT expansion.

And then lastly, I'll just mention it because we have each quarter, shrink remains at an all-time high. Long term, in order for us to get to substantially expanded margins, we're going to need that to come back down.

We're really pleased with what we've seen with the investments we've been making this year, we're starting to see some progress there. But as we've shared before, we're at historically high levels. I put all three of those things into EBIT margin expansion.

Brooke Roach - Goldman Sachs - Analyst

Great. Thank you so much. I'll pass it on.

Operator

Simeon Siegel, BMO Capital Markets.

Simeon Siegel - BMO Capital Markets - Analyst

Thanks, everyone. Good afternoon. So really great ongoing Rack growth. Great to hear about the expanding customer count as well. Just curious how we can characterize new customers versus higher spend per customer at Rack?

And then just any way to think about what percent of new customer growth at Rack or new customers to the company versus maybe anyone further pivoting from the Nordstrom banner? And then if I could just follow up, Cathy, any just quick color or context you could share on the receivable growth. Thank you.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

I'll start, and I'll give you a chance to chime in. We have our customer health metrics look good. We're having customer count growth, we're having purchase trips growth across both banners. Rack is certainly benefiting from having new stores. Rack new stores is our biggest source of customer acquisition.

It continues to be that, and we get good migration from those new customers as they get to know us across both banners and both channels. So customer health is looking really good.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

And the only other thing I would add on that is we did -- as we shared, we saw positive momentum in customers trips and trips per customer, which are all great metrics to continue to watch. And then, Simeon, I'm sorry, what was your question on receivables in particular?

Simeon Siegel - BMO Capital Markets - Analyst

I think it looked like they grew maybe a little bit quicker than typical. So just if there's any context there? Any color?

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Yeah. Nothing stands out in particular.

Simeon Siegel - BMO Capital Markets - Analyst

Great. Thanks a lot, guys, and best of luck for the holidays and hope you have a nice Thanksgiving.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Thank you, you as well.

Operator

Oliver Chen, TD Cowen.

Oliver Chen - TD Cowen - Analyst

Hi, Erik, Pete, and Cathy. As we look ahead, how are you -- what does guidance include for promotions and merchandise margins. Also as we model inventory growth, what are your thoughts on inventory relative to sales growth?

And then finally, on the product execution, it sounds like a lot of things are working well, which is great. How might you compare and contrast the Rack product execution relative to full-line and opportunities you see for category improvement?

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Oliver, there's a lot there. Good afternoon and thank you. Maybe I'll dish off a little bit. I'll start with inventory, but then maybe Pete can talk a little bit about our assortment by banner and the execution there. We're excited with the progress we keep making.

And then we can -- the merch margin question, I think, is actually a pretty simple one. Just saw really good strength and reg price sell-through, and we shared that, I think, in the materials in the remarks.

On inventory versus sales, maybe I can start with that one, and then I'll turn it over to Pete and/or Erik. We always strive to have the rate of sales consistent with the inventory growth. I'll just start there. We like it to be balanced or to have a positive spread of sales over inventory. That would mean then inventory is a little higher than we wanted right now.

We have shared that with you guys. We're working to make sure that we're clean as we come out of the quarter. That's really important as we bring in that spring newness coming into next year.

The inventory growth that we did see is largely to support our Rack banner, consistent with last quarter. So as we think about the additional new store openings will we support that with the inventory. We have increased the choice count for Rack.com, which is helping to drive some of its success. But that, obviously, we want to support that with inventory as well.

And then lastly, I would say the inventory quality is good. So we continue to watch the quality of the inventory and the aging and make sure that we are staying in a really good and healthy place there. All of that would say, we have inventory for the holidays, and we're excited about the next month and a half or so.

I'll turn it over to Pete for assortment execution.

Peter Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Yeah. Actually, it's been pretty darn similar in terms of the categories and how they're performing between the Rack banner and the Nordstrom banner. And while we do have nuance into how we apply our merchandise strategies there, one consistent theme has been to try to do a better job in investing more in the brands that matter most. That may seem obvious, but there's a bit of a long tail to our assortment at times if we're not on top of it.

And we've trimmed some of the long tail to help better fund the most important brands. And there's a version of that that's played out the Rack, that's worked well. And there's a version that's in full stores. And if you've been in our stores, you should be able to see that also in the way we're merchandising, the signing, what have you. Hopefully, those top brands are standing out a bit more, and we're seeing good performance in the best brands.

I would say another thing that's been consistently good across both banners is our own product label, which we carry in both places. That's been really solid for us, double-digit increases there. What we've been able to do in both instances is layer on price points that may not be as available in the market to us, lower price points than often times are more attractive to the young customers. So that's been a good thing, too.

And then the last thing I would say is, also, it's important that, we don't have this totally nailed, but we're certainly cognizant of it. And that's that the strategy for building assortments online is different than it is stores, and we know that choice count is super important for the online customer. So we're working on that as well.

So I guess what I would say, it's a long answer to your question, is that the work that we've been doing over the last year has been paying off for us, and it's given us, I think, a lot of confidence in that strategy and you'll continue to see more of the same for us in the future.

Oliver Chen - *TD Cowen - Analyst*

Thanks. Happy holidays, best regards.

Peter Nordstrom - *Nordstrom Inc - President, Chief Brand Officer, Director*

Thank you.

Cathy Smith - *Nordstrom Inc - Chief Financial Officer*

You as well, Oliver.

Operator

Dana Telsey, Telsey Advisory Group.

Dana Telsey - *Telsey Advisory Group - Analyst*

Hi. Good afternoon, everyone. Given the improvement in certainly the branded results that you've seen, as you think about the categories going forward, how are you thinking about the newness in the categories, obviously, the activation in the New York store?

And with BOPUS at Rack, how do you see that being additive to the top line? And lastly, just on the margin structure. How are you thinking about puts and takes for the fourth quarter and any framework for 2025, whether it's on freight rates or levels of pricing, this year versus last year? Thank you.

Peter Nordstrom - *Nordstrom Inc - President, Chief Brand Officer, Director*

Dana, it's Pete. I would say in the categories that the thing we've really thought about most is, again, the biggest lever that has to do with the brands. But when you think about relation to categories, it's women's head to toe and it starts with women's apparel. And the women's apparel part of our business has been really healthy this year. And I think you've been following us a long time, you know that it hasn't been the case.

And last several years, we think we've probably given up some market share there. So there's been a real concerted effort being thoughtful about constructing our assortments there relative to price and category and what have you.

I'd say probably the toughest issue relative to categories just has been somewhat to do with the unseasonably warm start to the winter time, late fall. We're not the first source to say this, but we got a bit of a slow start on the cold weather categories.

And that's picked up as you've seen the weather change but that's a big driver, as you would well know in this time of the year. So we keep our eye on that. And key to doing that well, it somewhat goes back to what Cathy talked about, that's making sure our inventories are in line with the demand.

And so there's a lot of effort to keep ourselves clean there and to be on top of promotional pricing as well so that we're competitive with the value.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

I'll talk a little bit about margin structure to your question around the puts and takes. Obviously, we're not giving 2025 guidance, but the way I would think about the remainder of this year and then as we just, I think, holistically think about it.

First, you specifically asked around price and freight. Freight, our teams have done a great job continuing to be back in market with our, the various freight suppliers and partners we have to get great rates. So we'll continue to manage that. They've done a great job all year long.

Price, ultimately, we do know that we would love to see a little bit of the ASP starting to come down. That's important for customers as well. And so we'll continue to work on that. But we're going to see a mix change a little bit as we continue to grow Rack. Rack has a lower average price point than the Nordstrom banner.

And that's a good thing, too, but we'll just continue to see a little bit of mix. I would say all of that I take into, we run a portfolio, and we always try to balance to make sure that we're, first and foremost, serving what our customers want.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Dana, I'll take the Rack BOPUS question, turning on BOPUS and store fulfillment go together, and we've rolled that out to 100 stores to start with. For both of those services, to be good for customers, inventory accuracy is paramount and our multi-year investment in RFID is really the big enabler to us being able to open up that inventory, store inventory, for a customer that's shopping online. We've had that capabilities in our Nordstrom banner for a number of years. We've seen the impact of that. It's both sales, its margin.

Most importantly, it's a better customer experience. And particularly in off-price, you get down to -- there's onesies and twosies of a lot of those items and to shop those onesies twosies, a lot of time it's clearance, to be able to do it online for many customers, that's a more convenient way of shopping those clearance items. So to offer that inventory up online is we think a big deal, and it will help our sales, will help our margin, and will allow us to serve more customers.

Dana Telsey - Telsey Advisory Group - Analyst

Thank you.

Operator

Alex Straton, Morgan Stanley.

Alexandra Straton - Morgan Stanley & Co LLC - Analyst

Thanks a lot for taking the question. Just a couple for me. One is just how your fourth quarter view has changed compared to when we spoke a few months ago. It seems like it's a little bit more negative, I think, primarily on sales, but if you could elaborate on that?

And then secondly, just on the inventory levels, you noted a little bit higher than you hoped. Is that concentrated in certain categories or in certain banners? Or is there any way you can unpack that a little bit more for us? Thanks a lot.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Good afternoon, Alex. With regards to Q4, first, I'll start with, we're really pleased with Q3, the continued strength we've seen in the business across both banners and our year-to-date performance, so starting there. But as Erik mentioned, given the slowdown we saw at the late part of October, we just think it's prudent to take a little bit more of a cautious outlook.

Q4 is big in our business, as you know, in all retail. It's almost 40% of the profits and about 30% of the sales. So we just want to be prudently cautious, the way I think about the holiday. There's a lot still in front of us.

And then on inventory levels, it's heavier, as I said, to support the Rack business. And then I would say I would call out cold weather categories. It's no secret that it was unseasonably warm for a little bit. The good news is that the weather has turned a little bit and that always helps the cold weather categories. And then, Pete, I don't know if you'd add anything to that?

Peter Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

No, I think that's right. I mean if we look at the aging of our inventory, which is really healthy and good and improved. So it's not really that. It's just a sheer quantity thing. And I think Cathy is right, has to do with a handful of weeks where we had suppressed selling of boots, outerwear, and sweaters.

And we're trying to claw that back as best we can for the remainder of the season. And that's, at the end of the time, if there's going to be risk to any certain categories, that's probably where it's going to be.

Alexandra Straton - Morgan Stanley & Co LLC - Analyst

Thanks so much. Good luck.

Peter Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Thank you.

Operator

Tracy Kogan, Citigroup.

Tracy Kogan - Citigroup - Analyst

Thank you. I had a question on your gross margin. I think you said it was driven by better full-price selling. And I was just wondering if that was pretty consistent across both divisions or if one really led versus the other. And then overall on gross margin, was this above your expectations for the quarter? And how are you looking at the fourth quarter in terms of the promotional environment and what you're looking at for gross margin? Thanks.

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Yeah. So for Q3 the 50 basis points that we called out, was really -- was driven by the strength of reg price selling. Nothing to call out versus banner, a little bit stronger in Nordstrom banner year over year but not anything that I would have noted in particular.

And then on Q4, it's consistent with the guidance we've given or the holding of the guidance we have. Still, we'll see some good improvement year over year in gross margin and gross profit, and that's what you should expect, obviously, but we are expecting to see some improvement year over year.

Tracy Kogan - Citigroup - Analyst

And what's your view of the promotional environment currently, as it's shaping up for holiday?

Cathy Smith - Nordstrom Inc - Chief Financial Officer

Yeah. Q4 is always promotional for retailers. I think we'd like to pretend that it's not, but it is. And so far, it's lived up to our expectations.

Tracy Kogan - Citigroup - Analyst

Great. Thank you, guys.

Operator

Blake Anderson, Jefferies.

Blake Anderson - Jefferies LLC - Analyst

Hi. Thanks for taking our question. So I might have missed this, but I wanted to see if you could comment on just traffic at each of the banners? And then a question on Rack. So at the new Rack stores, I was curious, the customers at these stores, are you seeing any incremental type of customers show up that maybe wasn't showing up over at your previous Rack stores? Just curious how these new customers are shopping across categories and how they are versus your current Rack customers?

Cathy Smith - Nordstrom Inc - Chief Financial Officer

I'll start with traffic and then obviously, Erik and Pete can help. With regard to traffic, traffic was up across the banners. Conversion's about flat across both banners as well. And as Erik, I think, shared earlier, really pleased with the continued growth in transactions as well. And then customers at the Rack --

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Yeah, one of the real differences in our two banners of business, our Nordstrom stores can draw from a much bigger geographic area. People will drive an hour to especially our big flagship stores. In off-price, it's about 15 minutes, like convenience really matters. And that treasure hunt in person, serving customers, is really vital in off-price business.

So there's just a lot of opportunity for us to serve customers in geographies where we have stores or filling in and some new geographies.

I would say the customers pretty similar to existing customers we have. And in particular, our space in off-price is really these brands. The offer of brands that we have and the depth of these brands, brands that customers associated with Nordstrom, the Nordstrom brand, is unique. And the more we've leaned into those brands, the better our business has been.

And certainly, price is important. When I say contrast to some other off-price retailers, we lead with brand followed by price real quickly, and I think others with price first. And so our average price point is a little higher than some of the big off-price players, but it's those brands really resonate with customers as we open new stores.

Blake Anderson - *Jefferies LLC - Analyst*

Very clear. Thanks so much.

Operator

Chuck Grom, Gordon Haskett.

Charles Grom - *Gordon Haskett - Analyst*

Thanks very much. Great results. I have one near-term question, one longer term. On the near term, I was hoping you could just double click on the slowdown here in the past few weeks. It's counter to what we've heard from a lot of other retailers. And I guess the question is, is it across all banners, both the Rack and the full-line stores? Is there any geographic concentrations, any categories that you could talk about?

And then on the Rack, it sounds like 20 to 25 stores is how we should be thinking about the model. How do we think about the longer-term prospects for store growth and ultimately, where that can grow? Obviously, you're far underpenetrated relative to some of the off-price peers. So how are we thinking about the opportunity for the Rack? Thank you.

Erik Nordstrom - *Nordstrom Inc - Chief Executive Officer, Director*

Chuck, again, the Q4 slowdown, it's a couple of weeks in. So tough to go deep on that. But I'd say it's been general across all of our businesses that we saw a slowing in the trends. And some of our Q3 results, we had really good sales trends across all of our businesses in Q3, and we saw a slowdown starting that last week of October. It's noisy -- I would say it's a period that is very noisy for a few obvious reasons.

One is the calendar doesn't match up with last year. So planning the business with five fewer days between Thanksgiving and Christmas is challenging. There's the weather impact, as Pete mentioned, there's no doubt we've seen some of that. Plenty of election noise that customers appear to be distracted for some time there. So you add all that together, we really haven't come to any conclusions on that. It's just we've seen a slowdown. And mostly, the majority of the holiday season is in front of us.

We feel really great about our inventory position, our holiday plans, our gifting assortment. And there's plenty of time to deliver great results there. But so far, it's a little slower than when we exited Q3.

Cathy Smith - *Nordstrom Inc - Chief Financial Officer*

Chuck, I'll answer maybe a little bit on Rack stores, to your point. We haven't necessarily guided into next year, but 20 to 25 stores in each year is a pretty good assumption, I think, for modeling purposes.

The other thing on longer-term growth prospects, exactly, as you said, we are underpenetrated. We still see ample opportunity to continue to put some new Rack stores in areas where we have customers that would love to shop a Rack store. So we do see a fair amount of opportunity still for continued growth.

Charles Grom - *Gordon Haskett - Analyst*

Great. Thank you.

Operator

Lorraine Hutchinson, Bank of America.

Melanie Nuñez - *Bank of America*

Hi. This is Melanie on for Lorraine. As we look out over the next few years, what comp will you get leverage on the SG&A line? Thank you.

Cathy Smith - *Nordstrom Inc - Chief Financial Officer*

It's really a mixture, Melanie. The Rack growth, obviously, is going to help for the top line growth just with the continued expansion of new stores. On the Nordstrom banner, we -- if you imagine a 2% to 3% type inflation world, you're going to need to have comps 0% to 1% or so, probably more like 1% to be able to get leverage.

Melanie Nuñez - *Bank of America*

Thank you.

James Duies - *Nordstrom Inc - Head, Investor Relations*

All right. We want to thank you for joining today's call. A replay, along with our slide presentation and prepared remarks, will be available for one 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. Thank you for your participation.

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