

**Company:** KeyBanc

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Operator: Good day and welcome to the Conference Call with Nordstrom, Inc. hosted by KeyBanc. Today's call is being recorded. At this time I would like to turn the call over to Ed Yruma. Please go ahead.

Edward Yruma: Hello and good afternoon everyone and thanks for joining us. My name is Edward Yruma and I am KeyBanc's Internet and ecommerce analyst. First, on behalf of my colleagues at KeyBanc as well as the Nordstrom team, we hope that you and your families are safe and healthy during the difficult times.

We have been fielding many questions from you our investors on both the impact of COVID-19 as well as interest in some of our best long-term ideas. In that vein, we are happy to host this call with Erik Nordstrom, CEO, and Anne Bramman, CFO. Just as a quick reminder, if you have a question please email me directly at e-y-r-u-m-a@key.com. Let me hand it off to Erik to make a few opening remarks.

Erik Nordstrom: Thanks Ed and thanks everybody for joining us today. I thought we would start off before we get into some questions, with a little context on how we view the times we are in, which are unprecedented for everyone.

With that being said, we see the significant changes, both right now, but in particular coming out of this, as really being an acceleration of what has been happening in our industry and with customers for quite some time. These are changes that we have been investing against strongly for several years now, things like the role of stores, the role of digital, and the customer's journey, and while we are in the crisis right now, this crisis does provide the opportunity to accelerate some of these efforts and we can get into that.

Secondly, we think not only are these tough times right now, we think it is going to be tough for a while and you have seen the actions we have taken. We think these times do call for clear, quick, decisive actions especially for our balance sheet and to secure the financing we need to remain healthy and be able to move this business forward, not just for this period where most people are at home and stores are closed but really through the rest of 2020. How do we put us in the best position? And Anne will get into some of that, but we feel very good about the actions we have been able to take in the last couple of weeks.

And lastly, we are looking at the situation again not just getting through a set period of time where everything will go back to what it was before. We are looking to come out of this and be a better company for customers, to compete more strongly, to gain market share, and we see opportunities to do that.

Edward Yruma: Great, thanks very much. Just I guess I will go ahead and get started with questions. I guess first for both Erik and for Anne can you kind of give us a quick recap of some of the ways that you are protecting Nordstrom in the near term? Anne, I know you did raise some capital. Can you talk about the balance sheet and liquidity as well?

Anne Bramman: Yes Erik, how about I start off and then you can talk about what we are doing from a customer perspective. As you see we, and Erik talked about in his opening comments, we have been taking a lot of actions pretty decisively over the last few weeks. I think the beauty of being here in Seattle is we kind of got to see early on what might progress and how this might take shape. And so we have been doing a lot of scenario planning, for some pretty downside scenarios quite frankly, to make sure that we have more than ample cash and liquidity, not just for the short-term but the mid-term and the long-term coming out of this because we do think this is going to be a slow recovery.

As we talked about, the actions that we are taking is to position ourselves best for our employees, our customers, and our shareholders. And we've taken a number of actions. So first of all, as a reminder, we entered the year with a solid financial position and healthy balance sheet. We started the year with over \$850 million of cash, and on top of that, we announced that we are suspending our quarterly cash dividend starting in Q2, we suspended our share repurchase program and we immediately drew down \$800 million on our revolver.

We also announced that we have further reductions of more than \$500 million in operating expenses, capital expenditures, and working capital, and this includes realigning inventory with sales trends and freezing hiring. We also furloughed a portion of our corporate employees, and have subsequently furloughed a majority of our store employees, and we've reduced cash compensation for the board and for the executives. And then Pete and Erik Nordstrom also declined their salary for the next six months.

We have also talked about the fact that we were actively pursuing options to increase our financial flexibility and we are continuing to look for those options. And yesterday was a big part of that plan, which was our recent debt offering, as you referenced.

Investors can look at our 8-K filing as of April 8. We announced a bid offering of \$600 million 8.75% senior secured notes due 2025, and that closing is expected April 16. So as you can see, we take the responsibility very seriously to position ourselves for both the short, mid-term, and long-term to have more than adequate liquidity to weather the storm because we believe we have a responsibility to serve the customers, our responsibility to our people, and all of our stakeholders. And we are very confident in the steps we have taken.

Erik Nordstrom: Let me pick up on what we're doing in serving customers. I think it's important for people to understand is, the times we're in in particular, lends itself to the flexibility we have in of our model.

Our model being Full-Price and Off-Price, being stores and online, and a lot of the digital capabilities that we have invested in the last couple of years.

The model allows us to flex. The times we are in right now demand great flexibility. As stores close, we are leaning on our ecommerce business. We have both Full-Price and Off-Price ecommerce capabilities. The Off-Price part is unusually large. There are not many online, Off-Price [businesses out there].

Let me start with Full-Price. Not only is the ecommerce side of our business running as normal with our fulfillment centers, we have also had store fulfillment capability for quite some time, and normally fill roughly 20% of our Nordstrom.com orders from our stores. Right now, we are filling about 50% of our online orders from our stores. This does a couple of things for us.

It allows us to generate some sales. It certainly allows us to start to work through the inventory that is stuck in stores. With stores being closed, we have a lot of inventory in stores. The ability to move that inventory and fill online orders is helpful to our inventory management.

But there is also a benefit to our fulfillment centers and the safety and health practices that we need to have in place for those facilities. Being able to shift some of that demand of fulfillment to our stores has allowed us to operate our fulfillment centers in a unique and a better way.

Off-Price I mentioned, we do have an online business within the Off-Price there, NordstromRack.com and Hautelook.com Historically, we have not had store fulfillment capabilities but the times we are in has allowed us to accelerate that so actually, on April 16, we will start doing store fulfillment on NordstromRack.com orders as well. Again, that will help greatly not only our orders there, but part of the synergy with our Off-Price and Full-Price business is Off-Price's ability to clear excess inventory from Full-Price.

Clearly that is going to be the case over these next handful of months. There is going to be excess inventory really in the whole system, in the industry. For us to have that flexibility to leverage our Off-Price business to help clear out that inventory will be key for us.

Edward Yruma: Just as a quick follow-up to that Erik, you mentioned that you are still shipping from the Full-Line stores? As we think going forward, what does the actual restart process to welcome consumers look like, how quickly can it be done, and is that an expensive undertaking?

Erik Nordstrom: To preface, I don't think anyone knows how the restart will occur. I think government regulations could play a large role in it, could be national could be regional. For us, what we have control of, we can open quickly. Part of the reason is because our stores aren't mothballed right now. We do have small teams in there to do fulfillment. We have our systems working every day and so we haven't mothballed that technology that's in stores to ring up sales.

From that standpoint, we are raring to go. We would love to open tomorrow. Our best guess is that it would probably be a phased approach by geography. Right now, we're working on what are some of those practices that will give our employees and customers confidence that stores are a safe places to be.

One of the neat things, not many neat things about this situation, but one of them is, there's a sharing of information across businesses and retailers. We have been in contact with many. There is a lot of good ideas and energy around for stores that are open right now, grocery stores and some other general merchandise stores, of practices to make their stores safe. That is what we are working on right now, and but when we get the go ahead, we will be ready to go quickly. And it won't be expensive to ramp up.

Edward Yruma: Great. My next question, and I guess we have previously called it the Great Recession but maybe we will just call it the recession of, you know, '08 and '09 now. Do you think that is

informative in the current situation as we think about the exit from a consumer preference perspective? And do you think that the consumer will trade down and look for value, post-crisis?

Erik Nordstrom: Maybe. I think we're well-served to acknowledge the instability going forward. These are unprecedented times. Coming out of it, not just the timing but what happens after it, what customers will be looking for out of the categories that we serve.

We are most focused on the flexibility. How do we get our inventories in a position to where we can very quickly fill what the customers are asking for? And between online and stores, that balance there. The balance between Full-Price and Off-Price, you mentioned price points.

I think it makes sense that this will be important. I think it is safe to assume it is going to be a promotional environment for some time as retailers are looking to clear out of inventory. But I really feel good about the flexibility we have inherent in our model and getting ourselves in the position mainly inventory-wise to where we don't have a lot of commitments and we're confident we will be able to get inventory as quickly as needed, and really get what a customer is looking for.

Edward Yruma: It wasn't that long ago that you had opened to great fanfare the Manhattan store, and it seems to reflect all of your learnings from everywhere across the store fleet. As you think longer term, what can you adopt from Manhattan to the rest of the fleet? And maybe as a bigger picture question, what do you think the Full-Line fleet looks like in the next five years?

Erik Nordstrom: We started in New York, seems like a lifetime ago, but New York has been terrific for us and there's been a lot of great learnings. Let's start with the flagship there. It is a different store. It's a really good example of what a modern flagship store can be, should be. One area that stands out is that it is by far our most experiential store. The amount of food and beverage in there, the number of pop-in shops, that flexibility and how we are able to bring interest and activity to the store, that's gone really really well.

One part of that is brand launches. We have had several brand launches there that I don't think we would have had if we didn't have a store there. The most recent example was SKIMS Shapewear by Kim Kardashian West. We got the launch on that. We got a personal appearance from Kim. It was chaos. And it brings a lot of attention not only just to that store obviously, but to our stores overall and that has been terrific.

The other part I would call out on New York is around our market strategy, which we will get into. Our market strategy started in L.A. but it really has gotten traction in New York, faster than we had planned on.

The ability for customers to have a flagship store experience but then engage with services in either our two Rack stores there, where we can do Nordstrom.com returns, or from the Nordstrom store returns, we can do online order pickups, Nordstrom.com order pickups at stores, we can do alterations as well.

We also have the two Local service hubs there. It just makes sense for customers who live on the island that here are some services that they like that can be done in their own neighborhood, which leads to more engagement which is very beneficial for us. We know when we engaged customers across those services, that their spend with us goes up quite a bit. I'm sorry, what was the second part of your question Ed?

Edward Yruma: Well just trying to think taking that forward and talking about really what does Full-Line look like do you think, you know, over the next couple of years.

Erik Nordstrom: I think that's a good example of what we're anticipate seeing is not a new direction but really an acceleration of a direction. We think physical assets are really important for what we sell.

We know customers like flipping back and forth between the digital and the physical. They like to try on, touch and feel things. They like to do mostly returns in a store as opposed to putting in a box and mailing them. They like alterations, they like meeting a stylist. A lot of these physical touch points we believe are super important, and they don't necessarily take a 160,000 square foot store to do them.

So we think physical retail touch points are going to be really important, but they could take different forms. And having this menu of assets that includes stores at different sizes, that have good selection of merchandise in them, but then to have our local stores that do not have merchandise bought for them but are there in very convenient ways to engage with customers and services.

And also, we are excited about being able to leverage our Rack stores for some of these most sought after services. Our Rack stores are assets we already have. They don't take any investment. And customers have understood it very quickly really without much marketing at all and are very comfortable going in and having services on their terms.

That we all feel good about. And so, what that is going to mean specifically and what those physical locations will be, again I think we've got to have some flexibility. You know, we don't know coming out of this what is going to happen to malls. We don't have standalone stores. And there are accelerated store closures around that could certainly affect us and we will as we have been, we always look at our store portfolio and if there is store closures to make, we will do that. We really look at it by market by market. What are the assets we want to have in that mix? I mentioned Locals and Rack stores we have, it's a more efficient mix that resonates with customers. Having that mix more balanced between big Full-Line stores, Local stores and services of Rack stores is going to be more and more a part of our future.



Edward Yruma: Got it. Turning to a fellow Seattle company, Amazon continues to put a high bar from shipping speed perspective. Do you think they will ever really compete with you head to head in premium apparel? As a follow-up to that, do you think Nordstrom needs to get faster in shipping?

Erik Nordstrom: Let's start with the last one, yes. We do need to get faster with shipping and we are, and we have, as we built out quite a few facilities. A few years ago, we opened a big fulfillment center in Pennsylvania which made our shipping times to the Northeast faster. We are adding a fulfillment center in Southern California that is just coming online this year which will help our speeds out on the West Coast.

Our market strategy of being able to leverage these local assets, particularly in this case the inventory that is in our stores, we have been doing this in Los Angeles and starting to do in some other markets, we can significantly (a) increase the selection that is available to customers quickly and (b) shorten up the shipping times. So the amount of customer selection that we can get to customers in 24 hours is better than anything out there for our categories, including Amazon.

Now, that is leveraging our local assets. We can't deliver the same selection with the same speeds in areas where we don't have stores. So for North Dakota, are we going to have to have those same capabilities? No but in our biggest markets we are underway on scaling that.

You mentioned Amazon. There's little differences. I mean, everyone knows their flywheel and how successful that is. But key to that, is being the everything stores, having enormous selection and really being a place where you know what you want, or what you buy lends itself to product reviews and description and real kind of quantitative metrics.

Fashion is a little different in that. A lot of what we sell is not from customers who have a shopping list of exactly knowing what they want. They know they want something new and that discovery

part is an essential part of our business. And that is something we need to be really good at. We think being in physical and digital assets helps a lot in that. Having brands helps a lot.

I think Amazon is particularly good when merchandise is more commoditized. That is not what we participate in. We believe brands are important in fashion, and a significant amount of our inventory is either exclusive or limited distribution. And scarcity has always been a part of fashion, so being a retailer of choice for the best brands in the world in fashion is important to us. It is something we have pushed hard at for a number of years.

I think you have seen that play out in some of these launches that we have had. Being the retailer that a lot of these digitally native brands that don't start as wholesalers but do wholesale us, that has been growing in importance for us and allows us to have some points of difference.

Edward Yruma: That is actually a good maybe follow-up to that comment, given that you were early in partnering with some of these brands. What have you learned from them? What are they doing effectively that you translate to the rest of your business? Will the digitally native brand will ever be a significant piece of your overall sales?

Erik Nordstrom: Well they are right now, yes, they are significant. And I think it is - it's an example of, you know, it's a win-win. These brands, I think every brand that starts online kind of reaches a ceiling. I can't think of an example where having a physical presence isn't part of their strategy at some point. There are only so many eyeballs they can get on their products on their own website. To be on our website and to be in our stores is beneficial but it has to be done in a way that is a win for their brand.

We are not a price promotional retailer. We are unusual in the amount of our sales that are at regular price. We are a place where we have some credibility of customers of discovery, of newness. And so brands like that. I don't think brands need as many retail partners as they used

to, but they need at least one. And we work hard to be that retail partner of choice which has allowed that business to grow quite a bit.

I think one of the things we have learned on that, and I think our team has done a really good job at doing, is being flexible. These are almost by definition smaller companies that are growing quickly. They may not have a lot of systems, supply chain capabilities, data that some bigger companies have, and we need to be flexible in working with them so that we don't overwhelm them or are too bureaucratic, too rigid. It is one of the things that I hear a lot from these brand partners is that they appreciate our team's flexibility.

We focus on the customer and what the customer wants. If they want this product, we have to figure out a way to get it to them and have it to where it is good for the brand too.

Edward Yruma: Great. You have been known really since Nordstrom's beginnings as having outstanding service and that has kind of always been a key part of your value proposition. I know in a store it's easy to reflect it, right? There are great salespeople who know your preferences and get to know you as a person. How do you extend and create a great customer service experience online?

Erik Nordstrom: Well I think I'd start with just the lines between online and offline are almost nonexistent these days. Most customers' journeys include a digital portion and a physical portion too. A majority of our store sales include customers spending some time online and a big chunk of our online business includes a store experience somewhere.

So we don't look at it really in a binary way like that. And I think customers expect services to be fluid that way. There is a lot of digital tools that help service. I mean, there is going to be the ante of having good websites, the navigation, the functionality, and a lot of features that are necessary to have.

We hear from customers a lot around service is they mention people, but they mention authenticity and kind of a trust there. And what we have learned is, I think that is part of our brand but that doesn't have to mean it is a two-hour personal stylist appointment in the store.

One of the features that I think is really interesting and has been a big hit, on our product pages we have kind of quick scrappy videos of salespeople talking about the product. It's a real salesperson in a real store talking about why they love that product. And we get a lot of eyeballs on that, a lot of good engagement.

And while the customer doesn't know that salesperson, there is not a personal relationship, they see that it is an authentic person and there is a trust that just helps in the discovery process, to have a real person talking about the attributes of the product helps a lot. We see opportunities like that to bring a humanity and authenticity to the digital experience. And there's tools that we continue to invest in for our people.

Another example, is we have a tool called Style Boards, which allows a salesperson to basically curate a web page for their customer and email it to them and allows the customer to have the online shopping experience, but it's their trusted advisor doing a lot of curation for them and helping them through the process. And that's something that has been successful for us because it is not just about additional tools, it relies on having great people on it. And we have got terrific people in our stores.

Edward Yruma: Maybe as a follow-up to that, how big if you could dimensionalize or just give us a range, like how big is the style business for you where you have someone buying through a stylist, from a style board, or from Trunk Club?

Erik Nordstrom: You know, I don't know that. It really depends on how you define that styling service. We view it as we have styling that doesn't involve people at all, with features online that show whole

outfits and a customer can swipe through and change different items within that collection of an outfit. It is styling but it's not with a person involved. That gets a lot of engagement and we will get conversion from that.

But then we do have human-based styling as well. You mentioned Trunk Club, which we think is a key part of our styling offer especially going forward. So I don't have an exact number for you, but it is something that has always been an important part of our business and we think it is going to grow in importance.

Edward Yruma: I would like to shift a little bit to Rack for a second. I know that the Off-Price channel kind of broadly speaking has been slow to move online. I think, unlike a lot of your peers, you actually had built a pretty strong online Off-Price business. I guess as you think about the industry conditions today, do you think that Rack will be the beneficiary of high industry wide inventory? And are brands more open to having Off-Price inventory online?

Erik Nordstrom: Yes. I think our Rack business will be the beneficiary of certainly the rest of this year. There is going to be excess product out there and there is going to be great values to be had there. And our relationships with brands and part of what helps us in procuring Off-Price distribution from brands is, brands see the synergy and we work to get this across, the synergy between our Off-Price and Full-Price business. Our Rack stores are our biggest channel of new customer acquisition and 1/3 of our newly acquired Off-Price customers end up becoming Full-Price customers within the first year.

But there is also synergy for brands. The brands we carry in our Rack business are predominantly the same brands that we carry in Full-Price. And what we can demonstrate to brands is Rack exposes their brands to new customers and many of those customers end up becoming Full-Price customers as well. So yes, I think we are trying to again position our inventory to commitments to be very open because we think there is going to be great values to be had there.

The online part of it, yes is unusual the size of the online Off-Price business we have. I don't want to say it is a secret why, it is hard. It's hard to do Off-Price business online as you get the lower price points and you get to more onesies and twosies, limited quantities on things as merchandise is being cleared out.

For us, it works because it is part of a bigger ecosystem. Our Rack stores are very efficient and effective at selling through the odds and ends, kind of the treasure hunts that our customers like, and the online portion of it is great for product discovery. We already have over 80% of the returns from Rack.com and HauteLook go to our Rack stores, so that is a lot of traffic that goes into Rack stores. Those customers tend to buy things in our stores. It is a more efficient way for us to get returns back. So that synergy allows us to make the model more profitable.

We think there is an acceleration of shift to digital coming out of this crisis we are in there. And in Off-Price, there are not really that many people who have that business. It is going to be important for us.

One of the things that we need to do and are doing, is continued integration with those businesses. Our merchandise integration with Off-Price has been a bit behind where we have been in Full-Price. I mentioned at the beginning we are just going to be able to do store fulfillment starting next week in Off-Price so we haven't had some of those abilities for online order fulfillment or buy online and pick up in store. We are investing in those capabilities. It will make our Off-Price inventory at least as solid as Full-Price when we turn on these capabilities.

And it makes our inventory much more efficient. It brings greater customer choice to the customer without having the extra investment in inventory and possible markdowns. So we are very bullish on our Rack business.

Edward Yruma: Yes, you have historically had a significant amount [of inventory] that was made for Rack.

In the short term, do you think that you will be using Rack to clear out your Full-Line inventory in maybe a bigger way than you have recently?

Erik Nordstrom: Certainly in the near term yes. As a company, we have inventory and can use our Off-Price capacity to clear some of that out but also closeouts from the industry. It's a very safe assumption that there is going to be tremendous amount of closeouts. Again, that is part of our flexibility to shift less from the stuff that is more programmed out and shift to a more opportunistic buying, be that from our Full-Price business or from closeouts.

Edward Yruma: Got it. We are drawing toward the end of our call, but I did want to ask, you know, one final bigger picture question. You have been through what I would argue is, maybe the entire retail industry, has gone through a series of radical extremes over the past 18 months? We talked about New York and now you have the current situation.

What is morale like within the business both at headquarters and probably more importantly in the store fleet. How do you ensure that when the stores reopen, that your employees are engaged and ready to extend that great customer service that you are known for?

Erik Nordstrom: Yes that's a great question, I appreciate it. And it is something that we read a lot about and spend a lot of time on it. Pete and I have been really humbled by our team's response. I think it has come from a few things.

Number one, everyone is in it, the whole country is in this. And people watch the news and see the amount of job loss going on and just the stress that the country is in and people as individuals are in. So there's a real camaraderie of trying to help their coworkers and just help their communities.

We get communication from our folks and it has really been heartwarming how they have responded. It is taking people to need to embrace change. Honestly, there are bigger subjects than selling shoes and clothes.

But for our business, things like doing online order fulfillment at a much greater level in stores while stores are closed and people going there, people have to be able to embrace that change and they have. Our folks have been excited just to help. And I think so much of this crisis is out of our's control. We are kind of ((inaudible)) that for people to control what we can control is what we are focused on.

I hope well you know from following our company, that our culture around service is something that was established long before any of us were around. We are the fortunate recipients of it. It's just who we are, it is in our DNA to take care of people. Maybe that's the people we naturally attract, and in a crisis environment, their character comes through. And so I will tell you, they serve our customers and there is a lot of pride in our company and to show the customer what we can do.

Edward Yruma: Great. With that I think we are against our 45-minute time, but I wanted to thank you Erik, Anne, and the Nordstrom team and thank you to our investors for joining. We hope that you will have a great weekend and stay healthy and safe. Thank you.

Anne Bramman: Thanks Ed.

Erik Nordstrom: Thanks Ed, thanks everybody.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.