

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

JWN - Q1 2016 Nordstrom Inc Earnings Call

EVENT DATE/TIME: MAY 12, 2016 / 8:45PM GMT

## OVERVIEW:

Co. reported 1Q16 diluted EPS of \$0.26. Expects 2016 diluted EPS to be \$2.50-2.70.



## CORPORATE PARTICIPANTS

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

**Blake Nordstrom** *Nordstrom, Inc. - Co-President*

**Mike Koppel** *Nordstrom, Inc. - CFO*

**Erik Nordstrom** *Nordstrom, Inc. - Co-President*

**Pete Nordstrom** *Nordstrom, Inc. - Co-President*

**Jamie Nordstrom** *Nordstrom, Inc. - President of Stores*

## CONFERENCE CALL PARTICIPANTS

**Kimberly Greenberger** *Morgan Stanley - Analyst*

**Matthew Boss** *JPMorgan - Analyst*

**Oliver Chen** *Cowen and Company - Analyst*

**Dorothy Lakner** *Topeka Capital Markets - Analyst*

**Stephen Grambling** *Goldman Sachs - Analyst*

**Paul Trussell** *Deutsche Bank - Analyst*

**Lorraine Hutchinson** *BofA Merrill Lynch - Analyst*

**Neely Tamminga** *Piper Jaffray & Co. - Analyst*

**Mark Altschwager** *Robert W. Baird & Co. - Analyst*

**Jeff Stein** *Northcoast Research - Analyst*

**Ed Yruma** *KeyBanc Capital Markets - Analyst*

**Michael Binetti** *UBS - Analyst*

**Brian Tunick** *RBC Capital Markets - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the Nordstrom first-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. At this time, I will turn the call over to Trina Schurman, Director of Investor Relations for Nordstrom. You may begin.

---

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

Good afternoon, and thank you for joining us. Today's earnings call will last 45 minutes, and will include 30 minutes for your questions. Before we begin, I want to mention that our speakers will be referring to slides, which can be viewed by going to Nordstrom.com in the Investor Relations section.



Today's discussion may include forward-looking statements, so please refer to the slide showing our Safe Harbor language. Participating in today's call are Blake Nordstrom, Co-President; Mike Koppel, Chief Financial Officer, who will discuss the Company's first-quarter performance and the outlook for FY16.

Joining during the Q&A session will be Pete and Erik Nordstrom, Co-Presidents, and Jamie Nordstrom, President of Stores. With that, I'll turn the call over to Blake.

---

**Blake Nordstrom** - Nordstrom, Inc. - Co-President

Thank you, and good afternoon. For the first quarter, we had a sales increase of 2.5% and a comp decrease of 1.7%, which fell short of our plan for a low single digit increase. Despite our focused efforts to manage through this current environment, we are not satisfied with our results.

Given these sales trends, our inventories were too high, which puts pressure on our margins, and necessitates additional markdowns. Our team has aggressively addressed our inventory position, and as a result, we ended the quarter with inventory up 5% versus sales growth of 2%. For the balance of the year, our lowered inventory plans puts us in a much stronger position to manage the business more proactively.

In addition to our inventory management efforts, we're continuing to evolve our operating model to support our growth strategy. On April 18, we announced expense reduction efforts, predominantly here in our Seattle headquarters, of \$60 million.

This includes elimination of approximately 400 roles, which is about 7% of our corporate positions. This will improve our focus and execution, and make us more nimble to respond to the business environment. Later, Mike will share more on our expense reduction efforts.

As we look at the balance of the year, we are actively implementing a number of initiatives to drive top-line growth and improve the customer experience.

On May 18, we're rolling out an expanded Nordstrom Rewards loyalty program that will allow all of our customers to earn rewards, with or without a Nordstrom card. Our Rewards customers are many of our most loyal and best customers, spending four times more annually. Today, only about one out of five customers are part of our program, yet their spend contributes roughly 40% of our sales. This opportunity to reward all of our customers is big. Over the next 12 months, our goal is to add 5 million customers to our program. This will drive more sales and trips, and more importantly, it will enable us to better engage with our customers.

On the technology and e-commerce side, we are investing to create a more seamless experience across stores and online. This reflects continued modernization of our technology platform, including a scalable merchandising solution, as well as service and experience features. These are significant projects, they account for two-thirds of our overall technology investments this year.

We're building on the continued success of our Canada expansion with two full-line store openings in Toronto this fall. With Toronto representing the most productive market in Canada, and one of the top markets in all of North America, we see this as a significant opportunity. We believe these stores have the potential, along with our international flagship in Vancouver BC, to be among our highest volume stores.

In the US, we plan to open our second full-line store in Austin, Texas, which is a dynamic and growing market.

Our strategy remains squarely focused on serving customers on their terms. Knowing customers desire an experience that is both personalized and convenient, we are making improvements to enable our customers to shop seamlessly any way they choose. In our stores, our overall focus is to improve convenience. As a recent example, we enhanced the buy online, pick up in-store experience by providing curbside pickup in all of our full-line stores. Additionally we are upgrading our scheduling tool to support our team's efforts to ensure we have the right people, in the right place, at the right time. This will help improve customer service and productivity.

On the merchandising side, we are dedicated to having the brands customers want, with a keen eye towards product differentiation. We know customers desire newness in fashion, but are being more deliberate with their purchases. We are seeing great results from our recent collaborations

such as IVY PARK, Topshop, Madewell, Brandy Melville, and Charlotte Tilbury. We will continue to introduce and grow relevant brands that are compelling to our customers, while having limited distribution.

Moving to off-price, Nordstrom Rack represents an important channel for us to serve more customers and increase cross-shopping. Last year, 5 million new customers shopped at the Rack. This is meaningful because over one-third of our Rack customers will over time also shop in our full-price business. We've been pleased with our six stores that have opened so far this year -- their sales exceeded our expectations by more than 10%. We plan to open 15 more new stores this fall.

In closing, we recognize that the pace of change is increasing, so we're working diligently to evolve our business to best serve our customers. This means continuing to make the tough, but necessary, decisions that will ensure we are set up for continued success. We are confident that through our initiatives, we are competitively positioned to deliver the products and experiences our customers want.

I'll now turn it over to Mike, who will provide more color on our performance along with details on the changes we are making to our business.

---

**Mike Koppel** - Nordstrom, Inc. - CFO

Thanks, Blake. As we head into the balance of the year, we expect that uncertainty in sales trends will continue, and have built that into our outlook. We are implementing comprehensive plans to ensure that we can execute levers around inventory, expense and capital, all while maintaining our strong financial position.

These plans also incorporate our commitment to liquidity and working capital needs by optimizing our inventory turns. We are aggressively prioritizing our resources to assure that every dollar spent is meaningful to the customer experience, and we'll continue to challenge activities that are not.

Now, I'll provide additional color on our first-quarter performance. Our earnings per diluted share of \$0.26 were below our expectations, primarily due to lower sales volume and higher markdowns as we align inventory to current sales trends. Our results also included credit chargebacks and severance charges of \$0.10. These chargebacks, which were significantly higher than planned, related to an industry change in liability rules that took effect last October. In early February, we completed the roll-out of our chip-enabled point-of-sale system. As a result, we have begun to see these chargebacks decrease and anticipate a smaller residual impact in the second quarter.

Moving to the top-line, we had a comp decrease of 1.7% and total sales increase of 2.5%. Our full-price businesses -- which include our full-line stores, Nordstrom.com, Trunk Club and Canada -- had comp decrease of 4.3%. This softness was broad-based across stores and online, as well as across merchandise categories, although we had notably tougher trends in jewelry and handbags, as well as some of our larger volume brands.

On a positive note, we continue to see customers desiring fashion and newness reflected in consistent regular-price selling as well as strength in our new and emerging brands. Our off-price business, including stores and online, had a comp increase of 4.6%.

In addition to inventory management, expense rigor is a key component of our plan. We are making strategic decisions to invest in our future growth while focusing on areas where we can further streamline.

We continue to move forward with our emphasis on technology as a top priority, committing one-third of our capital investments. In March, after considerable planning, we implemented a new technology operating model, which included adding technical expertise at the senior management level. We are confident that these improvements will lead Nordstrom's next phase of growth and innovation, while continuing to optimize productivity and reduce complexity.

We're also executing on a number of initiatives to increase efficiencies across our supply chain and marketing functions. In our supply chain, we have an ongoing opportunity to improve the unit economics of product delivered to customers. We are refining our online assortment through greater focus on key brands and categories, while editing less profitable items.

We are also improving our merchandize allocation process between stores and fulfillment centers, leading to a reduction in split shipments, lower cancellation rates, and better in-stock positions -- all of which ultimately improve our customer experience. Similar to our efforts with technology, we are taking steps to increase marketing effectiveness across our enterprise.

All of these changes are part of our broader, ongoing efforts in improving our operating model. Through our actions, we expect to generate this year over \$150 million in expense savings, inclusive of \$60 million from our corporate realignment efforts. We continue to explore further opportunities to maintain flexibility in responding to changes in business conditions and customer expectations.

Our third lever, in addition to inventory and expense discipline, relates to capital deployment and allocation. Given the changes we are seeing in our industry, we are in the final stages of a thorough review of our five-year capital plan. This includes prioritizing our investments to achieve our stated goal of mid-teens return on invested capital. We will provide updates on these plans once they are finalized.

Now, I'd like to address our financial outlook. In updating our plans for the remainder of the year, we feel it is appropriate to realign our outlook, given the uncertainty in trends and expectations for a continued promotional environment.

Comp sales are expected to be between a 1% decrease to a 1% increase, compared with our prior outlook of flat to a 2% increase. Our earnings per diluted share expectation for this year is \$2.50 to \$2.70, compared with our prior outlook of \$3.10 to \$3.35.

In closing, while the pace of change continues to accelerate, our commitment to serving our customers remains unchanged. With our experienced leadership team, we are confident in our ability to manage through this current cycle. We maintain a healthy balance sheet and cash flow that will support the best interests of our customers, employees, and shareholders over the long term.

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

---

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

Thank you, Mike.

Before we get started with Q&A, we'd like to ask that you limit to one question. If you have additional questions, please return to the queue. We will now move to the Q&A session.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Kimberly Greenberger, Morgan Stanley.

---

**Kimberly Greenberger** - Morgan Stanley - Analyst

Mike, I'm wondering if, as you're reevaluating your financial targets here for 2016, if you have taken another look at your five-year capital plan, to see if there might be an opportunity perhaps to cut back or redeploy some capital that you had previously targeted for that five-year plan?

Thanks.



**Mike Koppel** - *Nordstrom, Inc. - CFO*

Sure. Kim, thank you for your question.

I did mention in our comments that we are going through a thorough review of the capital plan, which will result in a reduction of that plan. We haven't articulated that specifically yet. We're reviewing it with our Board next week, and after we complete that discussion, we're happy to share it.

---

**Kimberly Greenberger** - *Morgan Stanley - Analyst*

Totally understood.

Are there any overarching strategies or any new insights that you're bringing to bear as you go through those discussions, that might just help us understand how you all are evaluating your capital opportunities?

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

Well, I think clearly as we have been talking for the last couple of years, we're seeing a transformation in our Business model. The e-commerce element continues to grow at a good pace, and the impact of technology and digital on the customer experience continues to accelerate, so, that would imply our commitment to technology and fulfillment and the things that continue to support that business is going to be something we're going to stay very strong on.

On the other side, we continue to see traffic falling off in malls, and how we think about our store base asset will probably require some level of adjustment. So I think fundamentally, that is how we're thinking.

---

**Operator**

Matthew Boss, JPMorgan.

---

**Matthew Boss** - *JPMorgan - Analyst*

I just wanted to hear your thoughts on the roughly 10 point spread this quarter between Rack and full-line comps. What do you think off-price is delivering, that full-price department stores just seem to be missing? As we think about the lower run rate at Nordstrom.com this quarter, how do you accelerate traffic online, and anything to account for the moderation that we saw over the last three months?

---

**Blake Nordstrom** - *Nordstrom, Inc. - Co-President*

Matthew, this is Blake. I'll take the first part of that.

I think first of all, we would emphasize the online off-price part of that business, which comprises a whole look at NordstromRack.com. That is a newer business for us, it's been on a pretty steep curve. We have a much more mature business on the full-price side of it, and so that has been contributing greatly.

And then the Rack has had a pretty consistent performance for some time. It, along with our other businesses saw a little bit of softening in Q3 and Q4, and we were pleased in the Rack stores to see get closer to trend in Q1. So the off-price business is more about a consistency with our trends and our plans, and there are some challenges and some headwinds in the full-price business, but I think Erik can add a little bit, too.



**Erik Nordstrom** - *Nordstrom, Inc. - Co-President*

I can give you some context on the drop-off in our Nordstrom.com business. Two categories I want to share with you. Number one, in looking at customer behavior, our conversion is up. Our customer acquisition, retention, AUR, all pretty much in line with our budget. Where we saw drop-off was on trips. We had fewer trips coming to our website last quarter.

The second category that sheds some light, in looking at regular versus off-price business on our Nordstrom.com site. Our regular price demand is up in the mid-double-digits, and has remained healthy for quite some time. Where we're seeing a big miss is in our clearance and promo, promotional business.

So the takeaway from that is, one, that the clearance and promotional environment is really noisy. There is a lot of excess product out in the marketplace. It's certainly easy to shop online. There is some heavy, heavy discounting going on, and we're seeing that effect in our Business.

Secondly, the customers are coming to us for newness, and a great experience, and that portion of our business remains pretty darn healthy. So that, looking forward, what gives us confidence and what we're determined to stay focused on is giving customers great merchandise, a reason to come and buy something new, and give them a great experience. And I think it was in Blake's comments earlier, mentioned some of the brands that we're doing well with. That's more of what we see in our future.

Something like IVY PARK that we launched, a very limited distribution brand. We had great performance on that online and in our stores. The experience online was something we're pretty proud of and was a differentiated experience. And where we saw our weakness was in some very highly promotional brands, that we had tough results with this quarter. So that's what we're seeing.

**Operator**

Oliver Chen, Cowen and Company.

**Oliver Chen** - *Cowen and Company - Analyst*

I wanted your thoughts on what's happening regarding the price matching in the marketplace. You have done a great job really responding to the kind of preferences consumers have around that, and also your comments on editing less profitable items. Could you elaborate a little bit on the direction, strategically what that implies, and if it is related to what you mentioned about larger volume brands being a little tougher? Just curious about what that means for strategy, those pieces.

Thank you.

**Erik Nordstrom** - *Nordstrom, Inc. - Co-President*

Okay.

This is Erik, on price matching, it's -- the cause and effect is a little clearer online than in our stores, the price transparency that internet provides. And we have been more purposeful for, I'd say, the last couple of years of matching price on products online, really for big online retailers, wherever they may be, because there is no regionality to e-commerce. And that has served us well in gaining trust with the customers.

We do not look to price matching or price promotion in any way as being a big strategic lever, and a way of driving our top-line. We look at price matching as a customer respect and a customer trust issue, that when a customer comes to us, they know that they're being treated fairly and we think the fairest way of doing that and what customers expect, is to not pay more of a specific item if they're shopping with us.

That served us well in establishing that trust. We know from hearing our customers that they do have more confidence in our pricing than even just a couple of years ago. But strategically, where we're looking to win long-term is -- at full-price, is with newness, which as I mentioned, I think is increasingly with more limited distributed brands that really excite the fashion customer, and gets them to look for something new.

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

Oliver, the second part of your question on the unit profitability, there is a couple of elements of that. One is just better understanding the breadth of our assortment. One of the ways that we have been able to expand and grow our online business is through expanding the assortment, and at the same time, we also found that through expansion, some of our price points got to some lower levels that it becomes more difficult to make money on. So we're evaluating that.

We've also done a lot of work to eliminate split shipments. Clearly, if you have to pay a delivery charge on a split shipment, it costs you more than if it goes in one shipment. So, as we've grown and learned more about this business, we're finding ways to be more diligent and specific about understanding those levers, and making some progress in that.

---

**Operator**

Dorothy Lakner, Topeka Capital Markets.

---

**Dorothy Lakner** - *Topeka Capital Markets - Analyst*

Just wondered if you could talk a little bit about some of the other strengths, or maybe weaknesses in the assortment, and some of the things that you're doing to continue to bring that newness to the customer. Whether it be through expanding Madewell, bringing in IVY PARK, or also you had so much success with Nordstrom Product Group product recently. I just wondered if you could maybe speak to the changes that you're making to the assortment to continue to excite the customer?

Thanks.

---

**Pete Nordstrom** - *Nordstrom, Inc. - Co-President*

This is Pete.

You answered that questions well, actually. Those are all things that we're doing.

I think the thing that should be hopeful and promising to all, we still have good examples of product that comes in and performs exceedingly well. It is not like there is a malaise over everything no matter what, that is just not the case. We had success, as you talked about, with Topshop that continues on, Brandy Melville has been really good, Madewell, Charlotte Tilbury, IVY PARK.

Anywhere where we can work with the a brand to do something not necessarily entirely exclusive, but somewhat limited to our stores, around a brand that a customer has confidence and interest in, that is a great formula for us. The thing that we have going for us is we have had success with these things, there are people in the industry that are interested in working with us, and we're big enough where we can create some special programs that can be really compelling to a vendor.

We've found that most of our talk with the brands and the vendors have been positive about the things that we can work on together, to help us stimulate interest with the customer. So we continue on. We'll be pragmatic and conservative with our plans, but we're going to be aggressive about trying to figure out new ways to get customers excited.





**Dorothy Lakner** - *Topeka Capital Markets - Analyst*

Does that mean that you pull back on some maybe bigger brands, that are very heavily promoted, in order to get out of that whole frenzy?

---

**Pete Nordstrom** - *Nordstrom, Inc. - Co-President*

Yes, well, it was alluded to what Mike and Erik talked about.

There are some businesses that we have been, whether it is a specific item or brand, that might be pretty good for the top-line, but over time, it may not be particularly good for the bottom line. So we have got to reconcile those issues.

And you heard us mention, there is some big brands that we had, that have had some precipitous declines, and a lot of that is related to promotion, and how that has adversely impacted that brand with our customers. The good news is, if you're a buyer here at Nordstrom, that creates some open-to-buy, it creates an opportunity to try some new vendors, some new programs, some new things.

So brands are an important part of what we do, but if they're offering, and the way things are going with certain brands, are damaging to our brand, then obviously we have got to figure out alternatives and different things to try. So that's part of it.

You heard about the brands and you mentioned our own label product of Nordstrom Product Group, which has been pretty strong for us relatively, as well. So we will continue on that path.

---

**Operator**

Steven Grambling, Goldman Sachs.

---

**Stephen Grambling** - *Goldman Sachs - Analyst*

As one quick follow-up to Oliver's questions, are you seeing any change in the percentage of transactions that are actually price-matched in store?

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

That's a good question. Jamie, do you know that?

---

**Blake Nordstrom** - *Nordstrom, Inc. - Co-President*

I don't know if we know that exact number at this moment.

---

**Stephen Grambling** - *Goldman Sachs - Analyst*

Maybe if I can sneak another one in there.

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

Yes, go ahead. I'm sorry, Steve, we didn't have the exact answer for you, but we can get back to you on that one.

---



**Stephen Grambling** - *Goldman Sachs - Analyst*

Sounds good.

I guess you also mentioned the more promotional environment. How much of that is being driven by the traditional competitors, traditional promotional cadence versus either brands now trying to go direct, or even e-commerce? Are there any mitigating factors you have from brands going direct?

Thanks.

---

**Pete Nordstrom** - *Nordstrom, Inc. - Co-President*

Yes, this is Pete.

It is both. It's the traditional competitors and it's the fact that all these brands are retailers, as well.

Everyone finds themselves in a tough environment. They're doing what they can to stimulate sales, and I think it depends on your customer. For some, that means price promotion is a lever that's going to really compel their customers. I think what you're hearing from us is that is not the most compelling lever for our customers.

So what can we do about that? Again, I think we're big enough where we matter to brands. So we can have conversations about how to run a healthy business, and the choices that we have.

The other thing that we have going for us is brands like our customers. We've got a lot of the kinds of customers that they want to appeal to, and we have good customer data. And we can be transparent about that, with our brand partners. We can usually work towards solutions that are going to work well. So we got a lot of things going for us, that I think put us in a position where we can do something about this.

---

**Operator**

Paul Trussell, Deutsche Bank.

---

**Paul Trussell** - *Deutsche Bank - Analyst*

Mike, could you just dig into the margins a bit more for us? Just given the current inventory levels, what assumptions are you, and we should be making, regarding continued merchandise margin pressure into the second quarter? Also, how should we think about the Anniversary Sales shift impact to 2Q and 3Q?

And then moving towards SG&A, what are the adjustment, given the adjustments that you're making, how should we think about the cadence of expenses? It certainly seems like it was still at an elevated level here this quarter.

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

Sure, well, Paul, thanks for your questions there. Starting with the margin pressure, clearly, we haven't specifically broken out those line items. But, based on the fact that we are in what is a typical down cycle, where demand is soft, we're going to keep the pressure on ensuring that our inventories are turning, they're turning healthy, we maintain liquidity, and we continue to bring new goods in. So that will pressure margins.

And we have made assumptions within our outlook that include that. As far as the A sale impact, the impact to the EPS is probably a couple cents shift between the second and third quarter, and about a 200 basis-point shift out of Q2 into Q3 for comps. And just so everybody understands that, every several years, our Anniversary Sale, the last week of that falls into the third quarter; this is a year where that happens, so you're going to see the shift that relates to that.

In terms of SG&A, again, we haven't broken that out by quarter, or specifically by line item, but I will say that we've already begun to see the impacts of the things that we are talking about. We expect the impacts of those elements to continue to improve as the year progresses.

---

**Operator**

Lorraine Hutchinson, Bank of America - Merrill Lynch.

---

**Lorraine Hutchinson** - *BofA Merrill Lynch - Analyst*

How much of the product in the store would you say is limited or exclusive to you, and how big do you think that could get over time? If that will be the key differentiating factor for the stores, how much of the store do you think you could get that to?

---

**Pete Nordstrom** - *Nordstrom, Inc. - Co-President*

It's Pete. Yes, limited is a range. So I would say, in terms of stuff that is relatively limited or completely exclusive, it is probably maybe a third of our offer. Maybe a little bit more. It is hard to say.

The thing is, we're still a house of brands, and one of the strongest elements that we have to compel ourselves to customers, the breadth of what we have to offer, and brands really lead the way for that. So I think it's important that we don't manage to [inaudible], so it takes a lot of finesse. I think it's important that we're always out there in the market, looking to buy the best of what the market has to offer.

And then we can work, as time goes on on how to be meaningful enough to that brand where we can have a collaborative thing that works well for both of us. So we're pretty open, but ultimately, we want to make sure we're doing business -- we think it would be profitable over time. So we can work on that more, and it's become more and more of an important issue as time has gone on.

---

**Operator**

Neely Tamminga, Piper Jaffray.

---

**Neely Tamminga** - *Piper Jaffray & Co. - Analyst*

When you look at your 2016 triple points event as a proxy for your most loyal customers and their behavior? Are you seeing more stability in the top-line performance on those days of triple points versus what you just reported so far this spring? Is it the lulls between the events that are causing more of the comp decline? We're trying to get a sense of your truly most loyal customer and how they're feeling and how they're behaving?

---

**Mike Koppel** - *Nordstrom, Inc. - CFO*

Sure, Neely, this is Mike, thanks for your question.



We still see the penetration from our Nordstrom Rewards customers at roughly the same level, a little better than it was last year. In terms of the events, I wouldn't say that there is a material change in how we're seeing event versus non-event periods. I will say that our last triple event, the timing of it probably wasn't the best, and so we're making adjustments for that.

We're super-excited about the non-tender. There is a couple of elements about the non-tender program that give us a lot to look forward. One is, as Blake mentioned, there is an opportunity to engage in another whole other pool of customers and to bring them into our loyalty program, and we have seen over time, a multiple increase in spend, roughly four times spend and three times more trips, of those that are engaged in our loyalty program.

And the other element of it was, I think more on an operational side. And that is, we really learned a lot about how to develop a good customer experience. As a matter of fact, an outstanding customer experience, as we went through the development of this tool. And so we're really excited about that, we're looking forward to our customers using it. We believe it is very simple to sign up, and simple to use, and will further engage a lot more folks into our Rewards program.

---

**Operator**

Mark Altschwager, Robert W. Baird.

---

**Mark Altschwager** - *Robert W. Baird & Co. - Analyst*

Nice sequential improvement in the Rack comp. Can you talk more about the drivers there?

Just curious, to what extent did higher inventory transfers from full-price perhaps boost conversion or UPT in Rack? And to the extent you're able to reduce full-price receipts, given the softer sales environment would that be a potential headwind on the Rack store comp as you progress through the year?

---

**Blake Nordstrom** - *Nordstrom, Inc. - Co-President*

Mark, this is Blake. It is hard to point to one thing that was material enough to move those sales. As I mentioned earlier, we're working on a number of issues, so we did see overall an improvement.

Part of the Rack's mix is the full-line store transfer merchandise we talked about, and that's up slightly, because as we get -- as clearance, rises, markdowns rise, and we're getting almost clearance fatigue from some of the customers that are not as motivated on this merchandise, it is causing us to have -- to take markdowns sooner and steeper in some cases, to clear it.

That's moved up a little bit at the Rack. The Rack has a balance of close-outs from our top vendors, along with this full-line store merchandise. Again, we're just pleased overall that it improved. We think we are taking necessary steps with our inventory planning within the off-price division to be fluid, for both what's available in the market, because there is more product out there, and both to ensure that we're in a position of open-to-buy and flexibility for what comes our way from our full-price channels, both in dot-com and full-line stores.

---

**Operator**

Jeff Stein, Northcoast Research.

---

**Jeff Stein** - *Northcoast Research - Analyst*

Couple ones real quick.

First of all, I'm wondering if you can tell us what the comp store sales were for the brick and mortar stores only, for full-price, off-price. And secondly, since you entered Canada, we've seen some changes up there in terms of the economic outlook with lower oil prices, higher unemployment, and now there's some discussion about a housing bubble in Canada. Any concerns about how that might affect your expansion plans, and the performance of the stores you've opened so far, up in Canada?

Thank you.

---

**Jamie Nordstrom** - Nordstrom, Inc. - President of Stores

This is Jamie, I'll start with the Canada question. Our entry into Canada has gone really well. We are now a year and a half into -- since we opened Calgary. We opened our first international flagship in Vancouver last fall. We're also in Ottawa, and as Blake mentioned, we're excited about the two stores we're opening in Toronto this fall.

There has been a lot of talk about different macroeconomic issues in Canada. I will tell you, we have not seen a material impact from those, particularly in Calgary, which has a big concentration around the energy industry. We may have seen a couple of slight impacts, but overall, our business there remains strong.

And we're really encouraged by the overall customer reception we've had to our stores and our merchandise mix, and our service. And so despite what I think we've all read about Canada, we're encouraged about both the medium and long term future there.

---

**Blake Nordstrom** - Nordstrom, Inc. - Co-President

Jeff, you mentioned -- this is Blake, about the future as it affects growth signs in Canada. We have committed to six stores, and we think we're in the best markets there. As we mentioned, we have got the two in Toronto this year, and we have our final store, our third, which will be in Toronto, in 2017.

We don't have any other plans. We're excited about these six stores. They're in the best spots, and doing the best job we can in those communities. I think there was an additional question that he had, as well.

---

**Mike Koppel** - Nordstrom, Inc. - CFO

Comp store sales and full line.

---

**Blake Nordstrom** - Nordstrom, Inc. - Co-President

Yes, I'm not sure if we broke those out in the--

---

**Mike Koppel** - Nordstrom, Inc. - CFO

We did.

---

**Blake Nordstrom** - Nordstrom, Inc. - Co-President

We did? Where are they? Oh, they're right there.

**Mike Koppel** - Nordstrom, Inc. - CFO

We're down 7%.

---

**Blake Nordstrom** - Nordstrom, Inc. - Co-President

So for full line stores, it was down 7.7% and Rack was down 0.8% on a comp basis.

---

**Operator**

Ed Yruma, KeyBanc Capital Markets.

---

**Ed Yruma** - KeyBanc Capital Markets - Analyst

First on the expanded loyalty program, how do we think about the gross margin impact, and is this reward going to be materially different than those that have the credit card?

Second, you mentioned you would look at store closures. Would that be in the context of lease expirations, or do you have a cohort of stores that are underperforming, that you would consider terminating them ahead of lease renewal?

---

**Mike Koppel** - Nordstrom, Inc. - CFO

Ed, this is Mike.

In terms of the loyalty program, we have factored in -- we haven't broken out at this point specifically the impact of the gross profit, but we have factored that into our outlook. The non-tender program has a lower value element to it than the tender one does. And so, we don't expect it to have the same impact from a margin standpoint, and we're certainly hoping that it has a very favorable impact from a loyalty and long-term sales benefit.

---

**Jamie Nordstrom** - Nordstrom, Inc. - President of Stores

And on store closures, we have closed a small handful of stores over the last several years, and those were really all tied to lease expirations and the expiration of covenants. All of our stores are profitable. They all make money. So it's really not tied to performance.

It's tied to when a lease or a covenant expires, we take a look at the long-term future of that store and that shopping center. And in some cases we found that by moving to a better location in that same town, in that same market, like we experienced recently in Los Angeles, we moved from South Bank Galleria to Del Amo Shopping Center about three miles away, and we're having really good results there.

We're looking at those individual markets. Nothing, no plans to announce now, but we are taking a look at them and we think there is going to be positive opportunities over time.

---

**Operator**

Michael Binetti, UBS.

---

**Michael Binetti** - UBS - Analyst

Just a quick modeling question, Mike. On the restructuring charges, and the credit charge-back, how much did that account for in the change in the guidance for the year? Can you help us just directionally think about that, as an incremental data point? And if I could ask a quick follow-up.

We were surprised to see a large shift lower in the retail EBIT guidance given the relatively small 1 point change in the midpoint of the comp guidance. You have historically had advantages in fixed versus floating SG&A because of the big sales commission line in your cost structure. Has the leverage point on SG&A really changed that much this quickly? Or can you walk us through some the items that seem to be delevering pretty hard in the new guidance versus the old?

---

**Mike Koppel** - Nordstrom, Inc. - CFO

Sure, thanks, Michael.

The first part of your question, the impact of the restructuring charges and the credit card chargeback activity was \$0.10, or \$30 million of pretax earnings, for both the -- primarily for the quarter and there is a -- probably maybe a 1 or 2 penny impact in addition to that for the year.

In terms of the leverage point, I think what you're seeing is that, we continue to invest in the long-term growth of the Company, which is having an impact on our -- on the leverage of the Company. And primarily a lot of that is coming from the accelerated pace of the technology investment. Those dollars, for the development of the tools that we're putting into place, and the foundations that we're building, not only come to the P&L, but they go to our balance sheet, and then find their way through the P&L relatively quickly.

So that's a big element of it. The other element is, you may recall, we opened the East Coast fulfillment center last fall, so we're still absorbing the incremental impact of the cost of that asset. So, I would categorize the ability to leverage going forward as being more about the overall investments that we have made, from an SG&A standpoint. And of course in addition to that, we're seeing some pressure on our gross margin.

---

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

We'll now take one more question.

---

**Operator**

Brian, RBC.

---

**Brian Tunick** - RBC Capital Markets - Analyst

My question really was on the full line store line comp decline, the down 7.7%. I was hoping you could give some perspective. A lot of us think your small store base, located primarily in A malls would certainly buck what we're hearing about other mall traffic trends.

It has been obviously many years since you put up that kind of comp decline. You've had a couple more months since energy and tourism have slowed. Do you have any more perspective on what is happening at your full-line stores right now?

---

**Jamie Nordstrom** - Nordstrom, Inc. - President of Stores

Brian, this is Jamie.



I think it has been pretty well documented out there that mall traffic overall has been soft over the last, probably couple quarters. We have seen some data recently, over the last month or two that it was down, approaching double-digits, and we noticed that. We are primarily in malls, and when we see mall traffic go down, it hurts us, and we can see that in certain areas of our Business.

Clearance sales is a good example of that. While our full-price, regular price sales have been hanging in there, our clearance sales over the last quarter or two have really been down, and I think that jibes with mall traffic being off. So, we're looking at how can we, regardless of the mall that we're in, give the customer a compelling reason to make a trip to the store.

Obviously, that starts with merchandise, but also has to do with the services that we're offering. And we mentioned we're making big improvements in things like the buy online and pick up in-store experience. Things that we're doing online to flow into the store, and vice versa.

We're encouraged by things that we have in our control to compel customers to want to come to the store, and we're excited about starting to leverage some of the investments we've made over the next year or so, in creating some of these new customer experiences.

---

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

Again, thank you for joining today's call. A replay, along with 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.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.