

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

JWN.N - Q1 2024 Nordstrom Inc Earnings Call

EVENT DATE/TIME: MAY 30, 2024 / 8:45PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Jamie Duies** *Nordstrom Inc - Head of IR*

**Erik Nordstrom** *Nordstrom Inc - CEO*

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

**Cathy Smith** *Nordstrom Inc - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Brooke Roach** *Goldman Sachs & Company, Inc. - Analyst*

**Simeon Siegel** *BMO Capital Markets Corp. - Analyst*

**Kathryn Hallberg** *TD Cowen - Analyst*

**Warren Cheng** *Evercore ISI - Analyst*

**Carla Casella** *JPMorgan - Analyst*

**Tracy Kogan** *Citi - Analyst*

**Arian Razai** *Guggenheim - Analyst*

**Ryan Bulger** *Gordon Haskett - Analyst*

**Blake Anderson** *Jefferies LLC - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the Nordstrom first-quarter 2024 earnings conference call. (Operator Instructions) 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.

---

### Jamie Duies - Nordstrom Inc - Head of IR

Good afternoon, and thank you for joining us. Before I begin, I want to mention that we will be referring to slides which can be viewed in the Investor Relations section on nordstrom.com. Any 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 first-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 Q1 2024 earnings press release, which is available on our website.

As we begin, I want to acknowledge the company's April 18 announcement of the Board of Directors' exploration of potential avenues to enhance shareholder value and formation of a special committee to evaluate any proposal by Erik and Pete Nordstrom to take the Company private. The special committee will carefully evaluate any proposal that may be received and consider whether it is in the best interests of Nordstrom and all shareholders. We do not have an update to share on this topic and will not be speaking to it during our call today.

I'll now turn the call over to Erik.

**Erik Nordstrom** - *Nordstrom Inc - CEO*

Thank you, Jamie, and good afternoon, everyone.

For the first quarter, we delivered net sales of \$3.2 billion and a loss per share of \$0.24.

We are pleased with the strength of our top-line growth across both Nordstrom and Nordstrom Rack. Our business is performing well as we delivered net sales growth in excess of 5%, with double-digit growth at the Rack, a positive top-line contribution from our Nordstrom banner stores, and continued sequential improvement in our digital business.

Due to a host of factors that Cathy will discuss in a moment, our profitability was below our expectations, with roughly half of the first quarter impact related to timing. Although our earnings were held back, we remain confident in our outlook for the year. We are reaffirming guidance, building on the revenue stream that we have delivered in Q1, benefits of timing reversals, and actions already taken.

In the first quarter, we delivered year-over-year increases in customers and purchase trips. We managed inventory effectively, ending the quarter with double-digit positive inventory spread. At both banners, our customers responded to the inspiration and relevance of our customer strategy. Regular price sales, as well as sell-through, also improved against the first quarter of last year.

Our Nordy Club loyalty program events and offerings have been well received by customers. During the first quarter, sales to Nordy Club members grew at both banners, with loyalty sales reaching nearly 70% of our total sales.

Our digital business continues to trend in the right direction with its fourth consecutive quarter of sequential improvement. The primary drivers of the results included an improved balance across the spectrum of price points, faster shipping, as well as a clear focus in our offering of the brands that matter most to our customers.

Turning now to the three priorities that we set out for 2024, we are driving Nordstrom banner growth, operational optimization, and building upon the momentum at the Rack. I'll discuss the progress we made in the first quarter.

The first priority is to drive Nordstrom banner growth. Our strategy is rooted in enhancing the customer experience by offering high-quality service, as well as a compelling selection. Our teams work diligently to offer inspiration, as well as relevance, with an emphasis on breadth and depth of the brands that matter most to our customers. We are working to ensure this consistent and premium offering is not just at our largest stores but across our entire full-line store fleet. While we still have more work to do, the return to growth for the Nordstrom banner provides evidence that our efforts are resonating with customers.

As we outlined last quarter, we are focusing our Nordstrom banner efforts on digital-led growth supported by stores, aiming to further enable our customers to shop when and where they want.

In our digital business, nordstrom.com, we implemented improvements around the search and discovery experience and worked to optimize the balance of our price points across our merchandise selection while focusing on in-stock rates. We also launched our digital marketplace at the end of April, taking a measured approach in order to ensure a seamless customer experience, one that feels uniquely Nordstrom.

Marketplace allows customers to shop more products and sizes from their favorite brands while providing more access to new and emerging labels. As marketplace scales, we will grow our online assortment to serve more customers on more occasions through unowned inventory over time.

Our next priority for 2024, operational optimization, is intended to further build upon the success we've had the last couple of years in optimizing our supply chain capabilities. Efforts in this area resulted in an over 5% faster click-to-delivery speed and an improvement in variable fulfillment costs in the first quarter. We continue to see meaningful improvements in the movement of product throughout our network. We are getting

merchandise through our network to our stores and our customers faster at a lower cost. This helps to drive better outcomes like higher conversion and lower return rates.

Additionally, as we mentioned on the last call, the transition of operations from our San Bernadino Fulfillment Center to our West Coast Omnichannel Center is underway and expected to be complete in the second quarter. The West Coast Omnichannel Center is our newest, most automated, and lowest-cost fulfillment center. It has been scaled to serve our customers across the Nordstrom and Nordstrom Rack banners.

Our final priority for 2024 is to build upon the momentum at the Rack. With first-quarter net sales growth of 14% and comparable sales growth of 8%, we are pleased that our efforts to continue its trajectory. Driving the Rack's growth in the first quarter were increases in trips, conversion, and customers as we invested in merchandise to support the business. Customers responded well to our product offerings of great brands at great prices in the first quarter, resulting in continued regular price sales strength with the year-over-year improvement in sell through.

We've opened nine new Rack stores since the beginning of this fiscal year, which places us on track to open a total of 22 new Racks this year. Our new stores are performing well as we've improved our planning with better data and insights, as well as a team fully dedicated to new store openings. New Rack stores continue to be a growth driver and excellent investment for us as we deliver well in excess of their cost of capital within a relatively short payback period.

Before I turn it over to Pete, I want to recognize and thank our team across the organization for their dedication and hard work.

I also want to make a few comments about the passing of our dad, Bruce Nordstrom. Many people have reached out to us to share their memories of our dad, likely including some of the folks on this call today. Much of what you've shared has been quite moving, especially stories from employees who spent time working and interacting with them throughout the years.

A few teams have jumped out to me from what folks have shared. The lasting impact of his genuine kindness, how quick he was to smile, his humility, and his servant leadership. Thank you to everyone who has taken the time to share a memory or impression from their time spent with him.

Our dad was a values-driven person his whole life, and his values played a big role in defining what our company is today. There's no doubt that he was a great retailer and leader, and I'll tell you that he was an even better dad, and we'll miss him.

And with that, I'll hand it off to Pete.

---

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

Thanks, Erik, and good afternoon, everyone. I'll focus my remarks on our category performance, discuss a few in-store events, and provide some commentary on our upcoming Anniversary Sale.

Starting with category performance.

In the first quarter, our team sustained momentum from Q4 with a year-over-year improvement in regular price sales. Our top-performing categories were Active, Kids' and Women's Apparel, and Beauty.

The Active category, which includes apparel and shoes, led the growth with sustained strong momentum across both banners, led by recognizable brands. At the Nordstrom banner, the growth was led by Vuori, HOKA, and adidas.

Kids' Apparel continued its year-over-year improvement as we increased the depth of merchandise selection while improving sell through. NordstromRack.com digital sales of Kids' Apparel grew notably in the first quarter.

Sales of Women's Apparel grew in the mid-teens, representing its fourth quarter of sequential improvement. Our focus on the brands that matter most to our customers is driving momentum across both by banners. In the first quarter, our customers responded to more casual offerings, driving a strong regular price business, led by tops and dresses.

At the Nordstrom banner, contemporary brands such as Veronica Beard, Mother, and Vince were the top performers. We relaunched the Nordstrom private brand for women in the first quarter with a focus on modern, high-quality, and on-trend products. The Nordstrom brand is our most popular private brand, and customers have responded positively to the relaunch, driving improvement in sales, sell through, and margin in our Women's Apparel category.

At the Rack, our strategy and focus on the brands that matter most to our customers continued to deliver results, particularly in Women's Apparel. Our merchandise offering is differentiated and unique in the off-price space, as we aim to provide our customers access to great brands at great prices every day.

The strength of the Beauty category continued in the first quarter across both banners, driven by new brand launches and engaging customer experiences. At the Nordstrom banner, we introduced 30-plus new brands in the first quarter, most notably Prada Beauty, Pat McGrath Labs, and Pattern Beauty. At the Rack, Beauty sales were supported by prestige and new brands.

Before I move on to what's planned for our Anniversary Sale, I'd like to provide a bit of perspective on some in-store events that are inspiring customers and driving sales. Our "Make Room for Shoes" campaign that began in February is delivering results in our Nordstrom banner. This campaign features exclusive merchandise from one of our customers' favorite brands each month. Featured brands in the first quarter included On Running, Sam Edelman, and Birkenstock. On the heels of the campaign launch, we delivered year-over-year and sequential improvements in Shoes.

We also amplified in-store events around the Beauty category in the first quarter, driving incremental trips and sales.

From happy hour beauty parties to fragrance week to trend show programs that provide customers with an educational and entertaining experience around beauty products, our teams brought fresh ideas that resonated with our customers.

These personalized events helped invigorate customers' excitement to shop in store and have a positive impact on sales.

With the positive sales to inventory spread in the first quarter, our inventory position is healthy heading into our Anniversary Sale. Building upon the success of last year's event, we are increasing the depth of our offerings and grounding our assortment and highly coveted brands. We're excited about the expanded catalog this year that highlights our assortment. Every year, we work hard to include the best brands that people expect as well as new ones, too. This year's Anniversary Sale is shaping up to be a great event.

In closing, our merchandise performance was solid, and we ended the quarter with healthy inventory levels. We are focused on providing an exceptional Anniversary sale this year, led by the brands that matter most to our customers.

Before I turn it over to Cathy, I'd like to say a few words about the recent passing of our father as well.

I want to start by saying how much we appreciate all the client feedback and the condolences we've received. The memories of our dad remind us of the impact he made as a business leader and reaffirm what we know to be true about him.

Our dad was a person of action, someone who focused on walking the talk. When it came to the business, he was serious. He was driven by firmly held and consistently referenced values, and he saw the company's reputation as an extension of his own reputation. He taught us that successful retailing required humility. While he was a merchant and a retail legend, he probably saw himself as a shoe dog at his core.

He earned respect because he was respectful of others. He believed at others so that they would believe in themselves. He had high expectations for himself, and in turn, he had high expectations of others. We carry on both grateful too and inspired by our dad in the company he was so proud of.

And with that, I'll turn it over to Cathy to discuss our financial performance.

---

**Cathy Smith - Nordstrom Inc - Chief Financial Officer**

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

As Erik mentioned, our first-quarter net sales growth exceeded our expectations in both banners, reflecting strength in our business. Regular price sales were strong and showed an improvement from Q1 of last year. These factors provide us with confidence in our outlook and reaffirmed guidance today.

Our outside sales came with strong sell-through supporting our gross margin. Relative to our expectations for Q1, volume-related expansion was more than overshadowed by pressure on our gross margin, roughly one-half being timing related and the other half from operational factors. Both drove profitability below our expectations.

The timing-related impacts were largely due to a higher-than-expected increase in our reserves, as we grew our inventory throughout the first quarter off the seasonal low at the end of Q4, ahead of our Anniversary Sale. We expect this first-quarter headwind to moderate and partially reverse in future periods as inventory levels and corresponding reserve change. With this being our first-quarter operating and cost accounting, we are learning to better plan and forecast these elements. The other timing-related impact is due to our better-than-expected growth in sales to our Nordy Club members, resulting in additional loyalty-related deferred revenue that will drive sales profit in future periods.

Operational factors also impacted our gross margin in the first quarter. The primary drivers were external theft in our transportation network and inventory cleanup in our supply chain. We have taken swift actions on these factors to mitigate risks going forward.

The timing-related and operational factors that held back our profitability in the first quarter masked the underlying strength that we are driving in the business.

Moving on to other elements of our first-quarter performance.

Total company net sales increased 5% in the first quarter, which includes a 75-basis-point unfavorable impact from the wind-down of Canadian operations in a year ago quarter. Comparable sales increased 4%. GMV increased 5% in the first quarter.

Nordstrom banner net sales increased 1%, inclusive of a 110-basis point negative impact from the wind down of Canadian operations in a year ago quarter. Comparable sales increased 2%. And Nordstrom banner GMV was flat in the first quarter.

Nordstrom Rack net sales increased 14%, with comparable sales increasing 8%.

Digital sales in the first quarter were flat compared to the same period last year, with Q1 representing the fourth consecutive quarter of sequential improvement. Digital sales represented 34% of our total sales during the quarter.

Gross profit as a percentage of net sales of 31.6% decreased 225 basis points compared with the same period last year, as discussed previously.

We are pleased with our continued inventory health and management. Ending inventory decreased 6% versus Q1 of last year, resulting in a positive sales-to-inventory spread.

SG&A expenses as a percentage of net sales improved 20 basis points in the first quarter, as leverage on higher sales and improvements in variable costs across the business were partially offset by higher labor costs.

Loss before interest and taxes was \$21 million in the first quarter.

We ended the first quarter with \$1.2 billion in available liquidity, including over \$400 million in cash after retiring \$250 million in notes in April. Our balance sheet and financial position remains solid.

Turning to our outlook for the year, the macroeconomic environment continues to be uncertain. Even with higher interest rates, inflationary pressures, and overall concern about the economy, the consumer continues to be resilient and selective. We are reaffirming our full-year guidance based upon the revenue strength that we delivered in Q1 and the gross margin-related timing issues that I discussed, as well as actions already taken to mitigate further risks from the operational factors.

Our guidance includes:

Full-year revenue in the range of a decline of 2% to an increase of 1%, which includes a headwind of approximately 135 basis points from the 53rd week in 2023's results. We continue to expect revenue to follow a typical quarterly cadence.

As a reminder, the timing shift of our Anniversary Sale, with one day falling into the third quarter this year versus eight days in 2023, is expected to have a positive impact of approximately 200 basis points in our second-quarter net sales this year.

We also continue to expect total company comparable sales in a range of a decrease of 1% to an increase of 2% in 2024 versus 52 weeks in 2023. As our full year 2023 included a 53rd week, we calculate our 2024 comparable sales using a realigned 52 week to 2023 period for comparability.

Turning to profitability, we expect a full-year EBIT margin in the range of 3.5% to 4%.

We continue to expect our effective tax rate to be approximately 27% for the full year.

From an earnings per share perspective, we continue to expect full year results in the range of \$1.65 to \$2.05, excluding the impact of any share repurchases.

Turning to our capital allocation, our priorities remain the same. The first is investing in the business to better serve our customers and support long-term growth. We continue to plan for capital expenditures of 3% to 4% of net sales.

Our second priority is reducing our leverage. As I mentioned, we paid off the \$250 million bond that matured in April with cash on hand.

Our third priority is returning 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 and priorities are resonating with customers and driving top line strength. We remain optimistic. The momentum in our top line provides us with confidence in our full year guidance. I continue to look forward to the progress that we'll make this year with the growth opportunities we have, both at the Nordstrom banner and the Rack.

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

---

**Jamie Duies** - Nordstrom Inc - Head of IR

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 & Company, Inc. - Analyst

Good afternoon and thank you for taking our question. Erik, can you speak to the sustainability of the stronger comp momentum you saw across both banners this quarter? How did the trend sequence by month throughout the quarter? And are you seeing comparable trends quarter to date?

### Erik Nordstrom - Nordstrom Inc - CEO

Sure. Sales were positive in each month during Q1 at the JWN level. There were some timing changes with Easter that caused some change throughout the quarter.

Quarter-to-date our positive trends continue. They are -- they have softened a bit. I would point out, but for our second quarter -- but the first three weeks of May aren't much an indication. Our second quarter is really driven by our performance during Anniversary, which comes at the end.

### Brooke Roach - Goldman Sachs & Company, Inc. - Analyst

That's really helpful. And then for Cathy, given the strong start to the year, can you provide some color on the drivers that led you to reaffirm the full-year sales and comp guide rather than passing this through to the full-year outlook? What factors in your cost and margin outlook are helping to offset some of that gross margin headwind from timing headwinds that you're seeing this year? Thank you.

### Cathy Smith - Nordstrom Inc - Chief Financial Officer

Thanks, Brooke. So first, I'm going to reiterate the strength of the top line gives us a lot of confidence first just to see the sequential improvement we've been seeing across those banners and then obviously, in the Q1, it gives us a lot of confidence that our strategy is resonating with our customer. So that's the first basis that we start that with.

With regards to the rest of the flow-through, though, to profitability, you already noted some of the impact we saw or the headwind we saw in gross margin in the first quarter is timing related. A couple of factors, first, strength in our loyalty or Nordy Club sales is a good thing. It just will a little bit of a reserve this quarter, but we'll see that strength continue to come back. The strength we're seeing across our loyalty sales was great this quarter. So that's a positive kind of in disguise. It will impact us this quarter, but it will come back to the remainder of the year.

And then the other impact was timing related is just as we're learning, it's our first quarter in cost accounting, our first year in cost accounting. And frankly, we had a planning this. We didn't appreciate the need for the inventory reserves as you sequentially move coming out of a low in Q4 into a build quarter into Q1. We'll learn. We'll take those learnings into the remainder of the forecast. But all of that basically, it will cycle through in an inventory turn. Think about that for timing.

So that gives us confidence around the timing factors. The non-timing factors, the operational ones we talked about for gross margin impacts. We've already taken swift action. So we did a quick deep dive on root cause corrective action, and we're committed to offsetting that given that Q1 is our smallest quarter, and we've got a lot of the year in front of us.



**Brooke Roach** - *Goldman Sachs & Company, Inc. - Analyst*

Great. Thanks so much. I'll pass it on.

---

**Operator**

Simeon Siegel, BMO Capital Markets.

---

**Simeon Siegel** - *BMO Capital Markets Corp. - Analyst*

Thanks. Good afternoon, everyone. I first just want to extend my condolences as part of the long list of those directly and directly impacted by your debt, I mean what an amazing legacy and the impact you left as a retailer in a person. So I just wanted to extend that.

Would you guys speak to the margins at Nordstrom versus Rack? How do you think about the opportunity there? Maybe how should we think about the current, but also the future P&L impacts of Rack growth versus Nordstrom? Thank you.

---

**Cathy Smith** - *Nordstrom Inc - Chief Financial Officer*

Yes. So Simeon, I'll start. First off, I should let Eric and Pet acknowledge the condolence.

---

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

Yes. I think, Simeon, I appreciate your condolences.

---

**Cathy Smith** - *Nordstrom Inc - Chief Financial Officer*

On the margin impact between Rack and Nordstrom banner, we don't typically talk to those there's not as big a difference as one might suggest, but we use the exact same supply chain. We use the same technology. So there's so much that we leverage in our business.

We love the uniqueness of our strategy and offerings of two banners and four channels to allow a customer to interact with us any way they want to. And so the way we think about that business, not necessarily individually.

---

**Simeon Siegel** - *BMO Capital Markets Corp. - Analyst*

Great. Thanks a lot. Good luck for the rest of the year.

---

**Operator**

Oliver Chen, TD Cowen.

---

**Kathryn Hallberg** - *TD Cowen - Analyst*

Hi there. This is Katy on for Oliver Chen. Thank you so much for taking our questions. And of course, our deepest condolences to the Nordstrom family and team. Just first on inventory availability at the Rack. You've made a lot of effort around the selection, the offering of the top brands. How are you feeling about that selection now versus your target? Is there a lot more investment to be made around the brands in the section? And then I have one more follow-up. Thank you.

---

**Erik Nordstrom** - Nordstrom Inc - CEO

Pete, will take that. He's actually at a Rack store opening in Elk Grove, California. So do you want to take that, Pete?

---

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

Yes. We typically have not had much challenge getting the best brands to be represented in the Rack. There's product out there to be had and a lot of that stems from the relationships that we have with these brands in the full price channel and the access that provides us.

I mean I think our biggest issue in the Rack is you can rationalize selling a little bit of almost anything. And for us to be successful there, requires a degree of focus and the more that we've created focus there around our top brands and (inaudible), that has helped us. So that's really more of what it's about. I think it's the discipline about all the different ways that we can source goods for the Rack and make sure that we're being, we're creating a level of priority for what's most important.

And you can really see it show up. I mean, I thought that this morning, just being at this new store opening and talking to a lot of customers. And they all said a version of the same thing, is what they like about the Rack is they love the brands that we have and the great prices. And it feels like just an amazing deal for them. And you can tell, we had 700 customers in line for a new store opening, and it certainly reaffirms, I think, the path we've been on and gives us confidence for the future.

---

**Kathryn Hallberg** - TD Cowen - Analyst

Thank you so much. And just a real quick follow-up is on some of the events that you've been planning around. Is that incremental to the marketing budget? Are you sort of reprioritizing the market marketing budget? Just how is that flowing through? Thank you.

---

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

Erik and I talked a bit about -- commenting about events. And a lot of it is just stuff that we do all the time. It's not necessarily things that are built in as a big marketing push. It's just the activities that we do that some might be rather small, but they're just consistent way of how we approach the business.

And that's encouraging and empowering people at the store level, in particular, to create reasons for customers to come in to do something new. A lot of that revolves around our styling efforts and the one-to-one relationship and connection we have with customers. That engagement really helps us a lot.

So yes, I wouldn't look at it as much as some kind of overt top-down action around marketing spend. It's really more about the initiative and the empowerment of our people closest to the customer.

---

**Kathryn Hallberg** - TD Cowen - Analyst

Thank you so much.

---

**Operator**

Michael Binetti, Evercore ISI.

---

**Warren Cheng** - *Evercore ISI - Analyst*

Hey, good evening. It's Warren Cheng on for Michael. Thanks for taking our question, and condolences to you, Pete and Erik and to the whole Nordstrom family. I wanted to ask a question on the contribution of the new stores at Rack. You almost got 6 points of sales from new stores in the quarter. I think that's a pretty big step up from what you've been seeing. So maybe just a comment on the reason for the step up there? And looking forward, is that 1Q level? Is that a fair way to think about the contribution going forward?

---

**Cathy Smith** - *Nordstrom Inc - Chief Financial Officer*

So thanks, Warren. The new stores for the Rack continue, and you know Pete shared today that he's at a new store opening and the strength of the customers' excitement for it. The new stores continue to perform according to or better than our plans. And so I'll start there. They continue to be a great return on investment for us and bring us a great source of customer acquisition and giving us roughly 20,000 new customers to every new store.

So I'll start there that we -- our enthusiasm for the Rack banner continues. So you'll see that. With regards to the strength you're seeing this quarter, remember coming off of Q4, we saw some strength as well. So we've been building momentum for gosh, five quarters or so now in Rack. And this quarter was yet another quarter.

What you're seeing right now, though, are the benefits of the Rack stores we opened at the end of last year and the Rack stores we're opening in the first part of this year. They're still not in comp stores because they haven't cycled 12 months. We move to the comp when they're in their 13th month. So you're getting a little bit of that, the back end of the 22 -- or the 19 stores we opened last year in the front end of the 22 this year.

---

**Warren Cheng** - *Evercore ISI - Analyst*

Got it. That's really helpful. And then for my follow-up, I just want to make sure I understood the gross margin headwinds in the first quarter. So when you say the first -- when you say half from timing, half from operational issues, do you mean half of the year-over-year compression? And in other words, ex these issues, the underlying performance is flattish?

---

**Cathy Smith** - *Nordstrom Inc - Chief Financial Officer*

So we saw about 200 basis points of gross margin pressure versus what we had expected. There was 225 basis points versus last year. So we had expected a little bit, which we had talked about previously with the timing of moving to cost accounting. So there are about 200 basis points, think about it that way versus last year, and about half of that was due to timing and half of that was due to operational factors.

---

**Operator**

Carla Casella, JPMorgan.

---

**Carla Casella** - *JPMorgan - Analyst*

Hi. I was wondering if you could just give us a little more color on the credit card expectations for the year and if you've changed your view, how much -- do you expect the delay in the ruling? Does that change your view in your credit card income for the year? And how much of it's built into your forecast?

**Cathy Smith** - Nordstrom Inc - Chief Financial Officer

Thanks, Carla. So first off, as you know, which we've shared before, the credit quality of our credit cardholder tends to be a little higher than maybe other department stores or other retailers. So that helps us with lesser impact on potential late fee changes, so I'll start there. You are, I'm sure, aware too, that the CFPB regulation is still on hold. We continue to watch it, monitor it like everyone else.

But that was contemplated in our guidance. So we'll see how it unfolds. Right now, it's -- we're on probably a month's delay so far, but we'll see how it continues to move forward. In aggregate, our credit revenue will be about 3% plus or minus for the year, which is what we have shared. It will be a little bit lower than previous than 2023.

---

**Carla Casella** - JPMorgan - Analyst

Okay. Great. And then I had one question follow-up on the gross margin on the factors. How big was the inventory reserve portion of it related to the cost accounting like, could you give us a basis point or a dollar amount? And then does that roll through as that merchandise sales, meaning will it be done in 2Q, 3Q, 4Q? Like how should we think about that roll through?

---

**Cathy Smith** - Nordstrom Inc - Chief Financial Officer

So I would say, first off, to try to dimensionalize it, roughly 200 basis points of gross margin pressure we saw in the quarter versus our expectations, about half of that was due to timing. That's really split between that loyalty sales and that inventory reserve.

The way to think about both of those, though, is those come back through the next couple of quarters. The inventory reserves would be -- you would typically get that through a turn of inventory. But you'll be always setting up additional new ones and then relieving them -- then that's how cost accounting will work for us.

But that one in particular comes back and then within an inventory turn. The loyalty deferred revenue that we saw in the quarter will take a couple of quarters usually.

---

**Carla Casella** - JPMorgan - Analyst

Okay. Great. And then any comments on just underlying merchandise margins and how that trended?

---

**Cathy Smith** - Nordstrom Inc - Chief Financial Officer

We saw really good strength and it really goes to what Pete and Erik have already shared that we saw a year-over-year regular price sales that were increased. And so we're seeing some really good strength in the fundamentals, which is why we're so, I think, optimistic is the strength in sales across both banners and then the strength in rate price or regular price sales and good sell-throughs give us the optimism and confidence that you're hearing.

---

**Carla Casella** - JPMorgan - Analyst

Great. Thank you.

---

**Operator**

Tracy Kogan, Citi.

---

**Tracy Kogan** - *Citi - Analyst*

Thank you, everyone. I was hoping you could comment on your view of the current promotional environment and what you're expecting for the remainder of the year. And then my follow-up is just on what you're seeing in the Designer category and some of the other categories that have been weaker in recent quarters and if you've seen any improvement. Thanks.

---

**Erik Nordstrom** - *Nordstrom Inc - CEO*

Tracy, I'll take the first part, and Pete can take the designer part. It's a shortage the promotional environment seems pretty normal to us and we don't anticipate it changing much.

Pete, do you want to take the designer question?

---

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

I want to make sure I got the last part of the designer part of the question there. What was the last part of that?

---

**Tracy Kogan** - *Citi - Analyst*

I was just asking about the designer and some of the other categories that have been weaker in recent quarters and if you've seen any improvements in either design or other categories that have been weak?

---

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

I think the designer part of that is pretty well documented out there of what's happening from the designer brands and the competitors and what have you. And it's certainly been more challenged on the top line. What's good for us, though, is that we've got our inventory levels in the right position to be commensurate with that demand. And so you're going to see a lot healthier margins from us as we go forward.

Now there has been a sales drop off there. But to put that in context, I mean, we're still up over about 20% from where we were in 2019 in sales. So it's really more of a normalization, I would say, in terms of what's happened in designer categories. We went through a very robust couple of years there that were unusual. Great in a lot of ways, but it's normalized a bit.

And we're where we want to be, I think, with our inventory levels and prepared to chase into it as it improves again, these things are somewhat cyclical, but it's still a very big and important part of our business. And as I mentioned, it will be a healthier part of our business this year than what you've seen in the last couple of years in terms of the flow-through.

---

**Tracy Kogan** - *Citi - Analyst*

Great, thank you. And are there any other categories that have been weaker that are a call out?

---

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

No, not really. I mean that's the one that stands out. I mean there's a relative difference between the very best and the others, and you heard us talk about it. But I think probably the biggest thing for us is getting some growth in Women's Apparel and having some consistency around that is a big lever for us.

And it should be a good signal to you when we talk about Women's Apparel being one of our best growth categories. So that's something we've worked pretty hard and created a lot of focus around best brands and what have you. We're in a healthy place there, and we think there's still a lot of headroom.

---

**Tracy Kogan** - *Citi - Analyst*

Great. Thanks very much.

---

**Operator**

Bob Drbul, Guggenheim Securities.

Hi. Good afternoon. This is Arian Razai on for Bob. We stand our condolences to the Nordstrom team as well. Nice seeing sequential improvement in digital trends. Could you please spend a couple of minutes on the marketplace? I know it has only been a month, but can you share early reads to the customers' acceptance, what's the Rack going forward on this initiative? And how significant will the contribution be to digital sales overall? Thank you.

---

**Erik Nordstrom** - *Nordstrom Inc - CEO*

Sure. We launched Marketplace late April, and that's off to a good start. It's a successful launch. We're getting good feedback from customers and from brands. It's a relatively small launch at this point. And we're going to learn and grow it and really position for growth for next year. We don't see it as having a big material effect on '24 results. We see scaling it in '25.

I would just add, the bigger story to marketplace is really a key part of two objectives we have. One is to bring more customer choice to our digital shoppers. When we do that over the years that we've had our e-commerce business we've seen a positive impact from that.

But the second piece is as important, which is the discovery piece, so customers not only have more choice but be able to discover brands and items that really resonate with them. So we've made investments in the customer choice part with Marketplace. We've also made a lot of investments in the discovery piece and the navigation piece. We made improvements in search and browse that we're seeing good response to.

So we're -- we've missed a lot in both those areas. Again, for material impact, I wouldn't say you're going to see it in '24, but we are optimistic for its impact to '25.

---

**Arian Razai** - *Guggenheim - Analyst*

That's very helpful. Thank you.

---

**Operator**

Chuck Grom, Gordon Haskett.

---

**Ryan Bulger** - *Gordon Haskett - Analyst*

Hey, guys. This is Ryan Bulger on for Chuck here. I just wanted to ask on the long-term margin equation for the company. Is there anything structural that would prevent Nordstrom getting back to double-digit EBIT margins. And if you were to kind of ramp this as you get there towards like a high single-digit margin, what would the biggest factors for that be?

---

**Cathy Smith** - Nordstrom Inc - Chief Financial Officer

Thanks, Ryan. So before we get to double-digit margin, I would say we have to pass our way through probably our next way point, which is we're kind of focused, in 2019, we were at 6% EBIT margin. That seems like a reasonable next target, which is what we've been working on. And so structurally, I would say the businesses are very, very different today than they were 10 years ago or something. And that's the work we have to do as most omnichannel retailers have.

So we've invested significantly like we should and have in supply chain capabilities and technology to continue to serve our customers. And those are where we need to continue to see some improvements or productivity, which we are.

So before I say are we going towards double digit, I don't know that answer. We're kind of focused on driving EBIT margin growth over the next couple of years. and kind of focused on where we were in 2019 to 6%, and then we'll go north of that.

---

**Ryan Bulger** - Gordon Haskett - Analyst

Thanks very much.

---

**Operator**

Blake Anderson, Jefferies.

---

**Blake Anderson** - Jefferies LLC - Analyst

Thanks for taking our question. So I wanted to start off with Rack. That's really accelerated. Can you talk broadly about just how much that customer is seeking value versus the newness? And then are you seeing any kind of change or growth in this last couple of quarters, how much growth you might be seeing from new customers?

---

**Erik Nordstrom** - Nordstrom Inc - CEO

It's really hard to separate out value versus newness. It's really essential for us that both. And as you've heard us talk a lot about, in particular, it's the really coveted brands, brands that customers associate with our Nordstrom brand. And as we've leaned into those brands more has been more purposeful in allocating more open to buy to those brands as well as the (inaudible) or in our stores, our stores showcase these brands more and we really do lead with brand first on there.

Now the price is super important. But having that mix of brands that does separate us. Our mix is unique in off-price space having the depth of these coveted brands is a point of difference and having it in an off-price environment is really our secret sauce, and that's where we've been focused on. And as we've executed on that, we continue to see better business. And we think there's still some runway there to improve our mix there and to improve the shopping experience to where these brands really jump out to customers.

---

**Cathy Smith** - Nordstrom Inc - Chief Financial Officer

And then maybe I'll finish Blake on the new customer acquisition. Yes, we're seeing what we would expect and more with each of the new store openings.

**Blake Anderson** - *Jefferies LLC - Analyst*

Got it. And then just lastly, can you quantify at all how much full price sales you have and how that's changed over the last few quarters? And maybe if you could point to one or two things, what would you attribute that to and how much room left do you have to go there for a more full price sales?

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

Without getting into much detail about that, I think what you can see when you look at the health of the margin, you have to draw a straight line to full price sales. I mean I think we're at our best when we're selling things at first price. Obviously, the clearance is part of the business, but particularly in the Nordstrom banner. That is not typically where we tend to shine as much as where we have a bunch of distressed clearance merchandise.

The flow of new merchandise and the sell-through of that is what really drives the margin, and it's how we look at it. When we look at the different levers of margin, we tend to focus a lot more on that than for example, the markup or something. Let's get the first price right, let's sell it through at a regular price. And that's philosophically how we approach it.

And it works that way in the Rack too. And I would put a finer point on one of the things that Erik said about brands versus value in the Rack. The reason we get recognized for great value is because we have great brands. The brands create an obvious benchmark because people know what the value is of a brand they recognize. Not of something they've never heard of. So you can tell that, that's really a terrific value.

And again, just being there today and seeing in person at that opening was just I mean it was really uplifting for all of us that were there, not that we don't know this, but it's reaffirming because it's -- you can see it really play out, and it's why people show up before the store's even open. We had a woman that was there at 5:00 AM with a lawn chair waiting to get inside and she talked about the brands. So yes, it's hard to separate what those are, but I think they are, to Erik's point, they're really linked the price and the brands.

Great to hear about all the progress. Thanks again, and best of luck for the rest of the year.

**Jamie Duies** - *Nordstrom Inc - Head of IR*

We want to thank you for joining today's call. A replay, along with the 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

Refinitiv 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 REFINITIV 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.

©2024, Refinitiv. All Rights Reserved.