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JWN - Q4 2018 Nordstrom Inc Earnings Call

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OVERVIEW:

Co. reported 4Q18 results. Expects 2019 EPS to be $3.65-3.90.

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PRESENTATION

Operator

Greetings, and welcome to the Nordstrom Fourth Quarter Earnings Conference Call. (Operator Instructions)

We will begin with prepared remarks followed by a question-and-answer session. (Operator Instructions)

As a reminder, this conference is being recorded.

At this time, I'll 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 we'll be referring to slides, which can be viewed by going to nordstrom.com in the Investor Relations section. Our discussion may include forward-looking statements, so please refer to the slides showing our safe harbor language.

Participating in today's call are Erik Nordstrom, Co-President; and Anne Bramman, Chief Financial Officer, who will discuss the company's fourth quarter performance and outlook for 2019. Joining during the Q&A session will be Pete Nordstrom, Co-President.

With that, I'll turn the call over to Erik.

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

Thanks, Trina. Good afternoon. Before we get into the call, I'd like to take a moment to comment on Blake's passing. As you can imagine, this has been a painful and difficult time for our family and our company. Blake's impact around here is immeasurable. He loved this business and was so good at it. I think the most important impact Blake had on our company was with our people. In many ways, he brought our culture and values to life. He was the most genuine person I have ever known, and his authenticity helped him make real connections with people inside and outside of our company, many of you included. Pete, Blake and I worked closely as a team our entire lives, but especially over the last 20 years and most recently as co-presidents. We miss Blake terribly but are inspired by his example, and all of us are committed to keeping his legacy alive by being the best retailer we can be, particularly me and Pete. Lastly, Pete and I would like to thank those of you who have reached out with your condolences and stories about Blake. It is greatly appreciated.

Okay. I'd like to start out by saying that we are confident in our strategy to serve customers and drive market share gains. Our unique business model is a key point of difference that allows us to serve customers in multiple ways through stores, online, Full-Price and Off-Price with meaningful synergies across Nordstrom. Heading into 2019, we're focused on leveraging our digital and physical assets to provide our customers with a best-in-class experience.

While we have the right strategies in place, we are not satisfied with our current financial results. We planned 2018 as the inflection point for improved profitability, and we missed this objective. We have a high sense of urgency to deliver on our profit margin expectations. This means executing our levers to drive our top and bottom line. We're focused on getting back on track with our profitability goals, and we reaffirm our financial targets that we laid out during Investor Day last July.

Turning now to our fourth quarter results. We had a slightly positive comp sales increase, driven by momentum in Off-Price. In Full-Price, we saw an unexpected slowdown in full-line store traffic during and after the holidays. This resulted in softness across most merchandise categories, with Women's Apparel being the most challenging. We're taking immediate action to improve our merchandise assortment by leveraging data analytics for inventory and allocation planning.

At Investor Day, we outlined a number of initiatives supporting our customer strategy. First, we're encouraged by our customer trends. Of our 35 million customers, nearly 10 million shopped across our multiple channels over the past year. We expect this to lead to incremental customer spend of 4 to 11x. During 2018, more than 7 million new customers were introduced to Nordstrom through our Off-Price business, our largest source of customer acquisition. This is impactful because 1/3 of these customers are expected to cross shop in our Full-Price business within a year.

Second, our early investments to build a robust digital business gives us a competitive advantage. Digital sales made up 30% of our business in 2018. As we shared during Investor Day, Nordstrom.com has achieved scale with contribution margins at parity with full-line stores. Customers are increasingly engaging with us across stores and online. As an example, we've seen annualized sales growth of 40% from Buy Online, Pick Up In Store over the past 5 years.

Third, we continue to leverage our strategic brand partnerships to offer customers newness and a sense of discovery. These partnerships include emerging brands such as Reformation and Something Navy as well as established partners like La Mer and Birkenstock. We also had successful limited-time launches of digitally native brands like Away and Allbirds, with more coming this year. Our strategic brands delivered growth of 9% and made up more than 40% of our Full-Price sales.

Finally, we're pleased with our team's execution in Off-Price to build momentum over the past year. Through focused efforts to strengthen our merchandise offering, we delivered improved top line trends and faster inventory turns. We continued our expansion into Canada with the introduction of 6 Nordstrom Rack stores that have outperformed our expectations. Similar to our U.S. business, we've already seen synergies between Nordstrom and Rack stores. For example, the Rack serves as an exhaust for full-line stores, enabling more newness and improving product margin in Canada.

This year, we have 2 key priorities to drive sales and market share gains: our local market strategy and the Nordy Club loyalty program.

Beginning with our local market strategy, we're leveraging inventory, along with digital and store capabilities, to serve customers in new and relevant ways. We launched this strategy in Los Angeles as a proof-of-concept. The outsized share gains in this market give us confidence as we continue to scale. Our Get It Fast feature offers customers an expanded selection of merchandise available next day. We also opened 2 more Nordstrom local neighborhood hubs. We're experiencing higher customer engagement through services such as alterations and personal styling, which lead to an exponential lift in customer spend. In the L.A. market, demand for Buy Online, Pick Up In Store increased by 4x. Customers who visit Nordstrom Local spend 2.5x more on average.

This year, we're planning to reach scale in L.A. by leveraging our inventory. Our supply chain investments will give customers greater access to merchandise selection with faster delivery and at a lower cost to us. This spring, we plan to open a local omnichannel hub in L.A. to accelerate inventory efficiencies. We also plan to open a 1 million square-foot supply chain facility in the fall. This will enable faster delivery to the West Coast, which represents 40% of our customer base.

We're looking forward to expanding our presence in New York City. We introduced our Men's Store last spring and plan to open our Women's Store this October. This flagship will be the biggest and best statement of the Nordstrom brand in one of the world's top retail markets. We expect that our flagship, coupled with our digital presence, will contribute a meaningful sales lift in the New York City market.

Our second key priority is to leverage our loyalty program. We continue to evolve our program to remain relevant with customers. In 2018, our loyalty customers contributed more than 1/2 of our sales. Last fall, we launched our enhanced program, the Nordy Club. Cardmembers are now earning 3 points, up from 2, for every dollar they spend. We also added experiential elements such as exclusive access to services and experiences. For example, we offered our loyalty customers early access to our recent Something Navy drop. Going forward, we are pursuing additional opportunities to further personalize the customer experience and drive increased spend.

In closing, we're well positioned for success through our unique business model that enables us to serve customers in differentiated ways. As we focus on delivering our profitability goals this year, we're prepared to take further action to drive our top and bottom line.

I'll now turn the call over to Anne, who will provide additional insights into our results and expectations for 2019.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thank you, Erik. To reiterate, we're disappointed that we missed our EBIT margin inflection point in 2018. We're focused on getting back on track through our levers around inventory and expense. As we approach the end of our heavy investment cycle this year, we expect our generational investments and digital capabilities to further scale and contribute to improved profitability. In addition, our strong financial position enables us to remain agile in changing business conditions.

Turning to our fourth quarter performance. From an EBIT perspective, our results were generally consistent with our updated expectations and our holiday preannouncement. While Full-Price sales came in lower than expected, this was offset by strong expense management.

Full-Price comp sales decreased 1.6%. As Erik mentioned, we saw broad-based declines across most merchandise categories, with the exception of Shoes. To address our opportunities going forward, we took immediate action to edit our assortment, which represented about 10% of our brand portfolio.

In Off-Price, our comp sales increase of 4% was in line with expectations, with gains across most divisions. This reflected successful efforts throughout the year to improve our merchandise assortment and accelerate inventory turns.

Our total company gross profit rate decreased 33 basis points over last year. We took higher markdowns due to softer Full-Price trends and in response to an elevated promotional environment. We ended the year in a solid inventory position overall, with a decrease of approximately 2.5%. That said, we have some pockets of elevated levels based on our current sales trends.

Our SG&A rate was down 23 basis points over last year. We managed expenses well, outperforming our expectations. We continued to bend the curve as our annual expense growth moderated to 4%, below the 5-year historical average of 7%. This was driven by productivity gains in our digital capabilities, particularly in marketing and technology.

Our fourth quarter earnings also reflected a favorable income tax impact associated with our deferred tax assets. This included a $0.05 EPS benefit related to prior periods, in addition to a reduced effective tax rate beginning in 2018.

As we look back on the year, our strong financial position is a key differentiator in the marketplace. We have a healthy balance sheet and generated annual operating cash flow of more than $1 billion for the 10th consecutive year. Our consistent and balanced capital allocation approach enabled us to return $1 billion to shareholders during the year and maintain an investment-grade credit rating.

As we shared during Investor Day, we are targeting increased shareholder returns through the following financial priorities: drive market share gains, improve profitability and returns and continue our disciplined capital allocation approach. We're focused on achieving our long-term financial targets, and in fact, sales, ROIC and free cash flow performed in line with our goals.

While we fell short of our EBIT margin expectations in 2018, we're confident that we can achieve our long-term targets. We're focused on scaling our generational investments, leveraging our digital capabilities and strengthening our product margin.

Inventory is our biggest near-term lever of profitability. We've positioned our inventory plans below our sales trends, giving us flexibility to chase demand. We're also further leveraging data analytics to inform our merchandise levels and allocation.

Our second lever of improved profitability is expense. Relative to long-term targets, we are planning incremental savings between $150 million to $200 million related to efficiency initiatives across our company.

Turning to our 2019 guidance. Our EPS range of $3.65 to $3.90 is based on net sales growth of 1% to 2%. This assumes consistent trends in Off-Price and gradual improvement in Full-Price throughout the year.

As we have mentioned before, we're measuring success through sales, customer and market metrics. In 2019, we expect net sales growth to approximate comps due to the ongoing shift from stores to digital. As a result, beginning this year, we will only report net sales growth.

For EBIT, we expect a range of $915 million to $970 million. This implies an EBIT margin range of 5.9% to 6.1%, tracking toward our 2020 goal of 6.3% to 6.5%. Relative to our long-term targets, we have assumed lower sales growth in 2019, offset by incremental expense initiatives.

From a gross profit perspective, we're planning modest expansion through efforts to increase inventory turns and grow strategic brands. Our occupancy rate is expected to be flat.

Moving to SG&A. We're planning for modest deleverage when excluding the estimated credit charge in 2018. This includes $150 million to $200 million of expense savings in ongoing productivity gains in our digital capabilities. Excluding our West Coast supply chain investments, we expect to maintain a mid-single-digit expense growth for digital capabilities.

Another lever of improved profitability is our generational investments. In 2018, they contributed nearly $2 billion to our top line and exceeded our bottom line expectations. Nordstromrack.com and HauteLook became our fastest business to hit $1 billion in sales. Trunk Club sales grew 35% for the year, on track to reach its market potential of more than $500 million. In 2019, we're planning for our generational investments to deliver sales of roughly $2.2 billion, with an EBIT improvement of approximately $15 million over last year.

In terms of our quarterly cadence, we expect EBIT for the first quarter to decrease from the prior year. This assumes a continuation of current sales trends with higher markdowns to clear out pockets of excess inventory. From an expense standpoint, we assume greater deleverage on fixed expenses resulting from lower volume in the first quarter relative to the year. We're planning for EBIT margin to leverage beginning in the second quarter. In addition, we estimate $35 million in preopening costs for our New York flagship leading up to our planned October opening.

From a CapEx perspective, there are no material changes to our 5-year plan. We're estimating approximately $900 million of investments in 2019 or nearly 6% of sales. This includes a shift of around $100 million in projects from last year. We're investing in our key priorities, with 50% of our plan for technology and supply chain and 30% for the New York flagship. As we near the end of our generational investment cycle, we expect CapEx levels to moderate in 2020.

Through our unique business model and strong financial position, we believe we have the appropriate plans in place to succeed. Together as an experienced team, we're prepared to make hard choices and pull additional levers around inventory and expenses to drive improvement in our business. Heading into 2019, we're focused on delivering our profitability expectations and long-term financial targets.

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

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

Thank you, Anne. (Operator Instructions)

We'll now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Jay Sole of UBS.

Jay Daniel Sole - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Softlines & Luxury*

Great, thank you. Anne, my question is about the margin guidance. It's interesting that you're guiding to sales up 1% to 2%, yet you're still able to increase the EBIT margin. Is the message that you're seeing investments pay off, the generational investments and you're able to do things around inventory? Or is it more that sales are a little bit slower and you're finding new places to sort of cut costs that maybe you didn't expect before? And if you could sort of maybe divide between the two where the margin improvement is coming from, that would be helpful. Thank you.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. Thanks, Jay, and I appreciate your question. So I think we'll step back and broadly look at how we set the plan for '19 and where we set our guidance. So as you mentioned, the top line of 1% to 2%, I think if you focus on -- I'm going to talk about the midpoint of our guidance. As you can see from the midpoint of our guidance, we're actually expecting to get inflection in an EBIT rate. And the way we're getting there is modest improvement in our margin through inventory turn, tighter discipline in inventory and strategic partnerships. On the SG&A side, it's a slight deleverage, but between the 2, they kind of moderate out. So what you're seeing is flow-through from the top line. I would emphasize, on the SG&A piece to it, we -- it's kind of a combination of both. We are getting a lot more leverage, both in the top line and the flow-through from our generational investments. We're getting scale and productivity out of the investments we've been making in our digital capabilities. And additionally, we are finding additional ways to drive productivity in the organization. In general, when I look at our SG&A rate, as we're coming out of our heavy investment cycle, the good news is if you pull out what we're investing in our West Coast supply chain, our SG&A rate would be relatively flat from a rate basis year-over-year. So we're really starting to see that scale and productivity coming through the business.

Operator

Next is Alex Walvis with Goldman Sachs.

Unidentified Analyst

This is [Rosalie] on for Alex. We just want to know what is embedded in your guidance as far as freight and wages, particularly on the fulfillment. And also if you could give a little bit more color on the digital capabilities planned for 2019, that'd be helpful.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, Alex (sic) [Rosalie], I'll take the first piece of the wage and freight. We typically don't break that in the model. What I would say is as you're hearing from everybody in the market, there is wage inflation and freight costs are going up. However, as part of our guidance, we're finding ways to offset that. Again, we've been making investments in things like the supply chain in West Coast. So that's actually helping us not only serve our customers in a better way, but it's also allowing us to open up inventory and also to be more cost-efficient in how we serve the customer. So we're finding ways to offset some of those increases. From a digital capability perspective, Erik talked about supply chain in his remarks. Erik, do you want to add anything else to the capabilities?

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

Yes, I'll touch on that. I would start with inventory. Being able to leverage the inventory that we have that's close to our customers, mainly in our stores but also starting this year with the local omnichannel hub that I mentioned in L.A., allows us to do a lot with customers. And so it's the digital investments to leverage that inventory. It's also the digital investments that allow the customer to access the inventory in very efficient ways. So the result of that is a significant increase in selection for the customer. And we execute it with our local market strategy, especially same-day, next-day, 2-day, the amount of selection we can bring the customer is significant. The speed increases dramatically as well. Right now, our 2 fulfillment centers, one is in Iowa and one's in Pennsylvania, our delivery times to our West Coast customers, will improve significantly. And the third thing that our digital investments around inventory provide us -- for us at a much lower cost. We're able to get this increased selection faster and at a lower cost. So it's very meaningful. The other part, our digital capabilities, I would lump them together as being able to serve customers better. And a lot of that has to do with stitching together these experiences, digital experiences we've invested in the last several years. A lot of these capabilities, we've tested and we know they resonate with customers, but they especially are meaningful to the business when we can connect them together. So it can be as, I guess, old world services like alterations of making that experience in setting up appointments online -- that's an important piece of engagement for us, and our digital investments help with that.

Operator

Next is Oliver Chen with Cowen.

Oliver Chen - *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

It was very helpful in the comments regarding the Women's product and that being more challenging. What's your hypothesis for what happened there? And what classifications or thoughts do you have? It sounded like you could use data to help better inform the inventory biases. Would love your thoughts on how that process will work and the timing of working through the pockets of elevated levels.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Yes, Oliver, this is Pete. So yes, it was -- it was a bit abrupt in terms of what happened in Women's and somewhat unusual that it happened pretty much across the board. And there's explanations for all of it if you really kind of get into it. But it is troubling that we had that challenge across the board. So the thing that we've got going for us, to your point about the data analytics, is we've got really good information about what's working and what's not. And so we're actually right in the middle of understanding better just things like our -- average unit retail and some of it's happening in the different classifications. So the first thing we did is we had to take our inventory levels down so that we weren't taking too many markdowns. And as such, we edited out about 10% of the brands that we offer in Women's. So part of that gets us rightsized. The other part that, that does is that creates some Open-To-Buy for us to go and buy new things that hopefully are going to be more compelling. I think we tend to always gravitate -- we've been doing this a long time. We're in the fashion business. Like if it's not working, it's probably because our offer is just not compelling enough. And I know that sounds kind of obvious, but we've got a team of people that are currently in market right now just trying to figure out a way to improve our offer. There were some things that worked well in Women's. As an example, like our Topshop business is really strong still. So there may be some things to learn about that. I mean, I would -- that would suggest to us that flow, new product, fashion product, maybe a price sensibility. There's, I think, some indicators there that should help us as we continue to work through this.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

And Oliver, I'll take the question on the timing. So as we talked about our Q1 guidance, part of this is getting through some of the pockets of excess inventory. As I mentioned in my comments in the script, we've been placing our buy below our sales trend in order to allow ourselves the ability to be agile and to chase demand. So we're expecting that we'll be able to come out of Q1 really having addressed some of these pockets of inventory.

Operator

Next is Omar Saad with Evercore ISI.

Omar Regis Saad - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Softlines, Luxury & Department Stores Team*

Thanks for taking my question. I appreciate the really thoughtful remarks around Blake's passing. My condolences. Could you talk about how you're going to fulfill his responsibilities and how you're reallocating a lot of the things he did internally in the organization? And how you're thinking about the management team overall, as you continue to go down this digital path and omnichannel path? And where you think you are on the talent front? Thank you.

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

Thanks, Omar. Yes, in many ways, these subjects aren't new to me and Pete. It's -- [often] in some ways, they are. It's -- we've been co-presidents and have shared responsibilities over a number of years. We've had our different areas of focus. So we've done it with Blake's passing. I am supporting finance, still supporting our Full-Price business, [our] full-line stores: Nordstrom.com and supporting technology. Pete's supporting the Off-Price business, marketing, HR, all of our merchandising responsibilities. Am I forgetting anything?

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

That's about it.

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

Okay. And I will say structure always follows strategy for us, and we've moved things around over the years. And again, we've been involved in kind of all the subjects, and some of them were more involved now than we were before. To your question about how we view talent and our team, we really do run the business as a team, and it's our executive team that ultimately runs the business for us. And we've had some additions over the last several years. Going back, it's been about 3.5 years. Christine Deputy in HR; and then Anne, our CFO; and most recently, Edmond Mesrobian, who's our Chief Technology Officer, joined us about 7 months ago. I will say the common thread through all of those is going deep in subject matter expertise and adding more specific technical talent to our team, number one. And then number two, it's how we operate as a team. So I believe we have the best team we've ever had and are feeling really confident as we move forward.

Operator

Next is Ed Yruma with KeyBanc Capital Markets.

Edward James Yruma - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

Hi, thanks for taking my question and my condolences. I know the New York Women's flagship is opening this year later in the year. And I know you gave some color as to the shape of the year from a P&L perspective, but are there some things we should consider as you begin that kind of final preparation for opening that from a P&L perspective? And kind of how should we think about the lift that you'll receive from it in the back part of the year?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Ed, this is Anne. So for the New York store, we gave commentary as far as the preopening expenses. As you can imagine with an October opening, you would start seeing this really start to ramp Q2, more importantly Q3, as we go through the year. As far as the color around the year, when we get into the quarter, we'll get some more inflection as far as in guidance or color on how that market's doing as part of our generational investments. I will say that, given the fact that this is opening in the fourth quarter, as you can imagine, it will slightly skew some of our guidance or our EBIT delivery and top line delivery to the fourth quarter of the second half of the year versus normal. Not materially but slightly.

Operator

Next is Erinn Murphy with Piper Jaffray.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Great, thanks for taking my question and condolences to you and the family. I guess, first question for me is just on the customer-centric strategy you guys have. The 10 million consumers that you have that cross shop multiple channels. I think you talked about it growing 6%. I'm curious how has that looked over time? You guys have sliced and diced the loyalty data a little bit different. I'm just trying to see what the kind of growth rate comparability is. And then, I guess, maybe adding on to Ed's question as it relates to the New York opening. I'm curious if there's been specific learning more from whether it's merchandising or anything else from the Men's Store now that it's been open for a while that can help kind of inform things that you would change and -- as you prepare to open that. Thank you.

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

Erinn, this is Erik. You brought up the $10 million as cross shopping, and then you mentioned loyalty. Those are 2 different things. The $10 million is what shops more than 1 channel for us, with us, but is not limited to loyalty customers. So I will say that cross shop...

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

I can clarify. I guess that you used to disclose the loyalty members pretty regularly, and you've stopped disclosing that. So we're getting kind of different segmentation of how you think about kind of that customer-centric model. So just thinking about that 10 million who kind of cross shops. I'm just -- in it -- you talked about it growing 6%. I'm just curious kind of what has that run rate been? The growth of those consumers that are shopping across multiple channels, how has that looked over the recent quarters?

Erik B. Nordstrom - *Nordstrom, Inc. - Co-President, Principal Executive Officer & Director*

I don't have that right in front of me, but my -- I would say it's been pretty steady that, that percentage of migration. And what's encouraging to us is that, that continues. As that becomes a bigger and bigger base, that's more and more people. So we are encouraged about that. And I would point out, and we talk about things like the cross shop and digital sales penetration. Our business is much more digital than even that suggests. We know that the majority of store visits start online. We know that the majority of our store customers pull out their phone at some point while there in our stores. And ultimately, that could get captured as a store sale. And it wouldn't -- be capturing that calculation that you're referring to, but it absolutely is aided by the digital assets that we have.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

And this is Pete. I'll take on the New York part. And it is true. We've had a lot of learnings. And one of the great advantages we've had is being able to open the Men's Store in advance of the Women's store. It didn't initially start out that, that was our plan, but once we knew we were able to open it sooner, we made a decision because we knew we'd be able to get some learnings and when the Women's Store opened really be able to leverage that. And that's been true. We've been able to prove to ourselves that we can hire really nice people that give great service. That's been super positive. We've proved that customers are responding super well to the integrated physical and digital experiences we have such as express returns and same-day delivery and the 24/7 Buy Online, Pick Up In Store. In fact, a lot of women shoppers are using the Men's Store as a hub to do returns. We've also proven that we get a big online lift in the market when we have a physical store there. The New York market is already, but before we opened the physical store, our biggest online market. So we know that once the Women's Store opens, that's going to be great. The other thing that we confirmed to ourselves is the synergy of having everything all located next to each other helps. So we'd planned this, but we've confirmed that, that -- without the Women Store's opening, the Men's Store, whilst doing well in meeting our plans in both ways, it's going to be a lot better when the Women's Store opens because we just get that lift of that many more customers. I mean for example, in our regular Full-Price business, I think it's something like 48% of all things sold in the Men's department sold to a woman buying it for a man. And it's obviously quite a bit less since we don't have the Women's Store across the street. So I think we're feeling super encouraged by that. The other thing I would tell you is we've got a reputation, a legacy and a foundational element around Shoes. Shoes has been the best-performing category in Men's. We've got a lot of shoe inventory square footage planned in Women's and in Kids and everything that's opening up in that new tower. We're feeling really confident about that. The other thing that we've done in the tower is we've dedicated more inventory and floor space to Designer. Designer's been the best performing, kind of as a price classification, in Men's and, we anticipate that, that's going to carry for Women's. So I guess I've used a long way of answers, but I think we've confirmed a lot of things that we knew and we're feeling really great about opening up in October.

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

Yes, and Erinn, this is Trina. Just to let you know that we did disclose the loyalty customers. It's $11 million. That's a 16% increase year-over-year. And they contributed about 56% of our sales, and that's on a slide.

Operator

Next is Paul Lejuez with Citi.

Tracy Jill Kogan - *Citigroup Inc, Research Division - VP*

Hey thanks everyone, it's Tracy filling in for Paul. I was just wondering, given the challenges you saw at Full-Price in the quarter, what were you seeing in the competitive environment? And does any of that make you change or rethink your overall promotional playbook?

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Yes, it's Pete. That's a really good question, and I think it's a real time issue for us to figure out how to compete more effectively in our promotional environment. And it was promotional in the holiday time in particular. A lot of it is, we've got what we call preferred and strategic brands, and these are brands that have limited distribution. But all these brands are retailers as well. And one of the things that we've seen is a fair amount of them pulled a promotional trigger there in December. So we were actually having to compete on price with some of these brands that we sell just in terms of their vertical presence as retailers. I think that everyone really is committed in our orbit of -- in the universe of brands we work with. We try to run a full-price business, but there's some practical reality that come in there. So it's evolved and changed over the years from just a straight markdown to things like buy more, save more and a lot of kind of clever ways of getting promotional activity in there. So I guess what we could tell you without declaring anything here specifically is that we've got a lot of really good data about that, and we want to make sure that our strategy is as competitive as it can be. And obviously, we can't pretend that the promotional thing doesn't exist. So we continue to work on that.

Operator

Next is Michael Binetti with Crédit Suisse.

Michael Charles Binetti - *Crédit Suisse AG, Research Division - Research Analyst*

Hey guys, thanks for taking our question. I'll add my condolences. I just wanted -- a couple of modeling questions. On Slide 20, the 1Q commentary, Anne, does that mean below the full year guide or below last year? And then also I don't understand the comment that diluted shares will be 162 million for fiscal '19 without buyback, considering you printed about 167 million in the fourth quarter. So just a couple of simple model ones there.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, thanks for the question. So on the slide on the Q1 guidance, it's below last year. So again, as we talked about it, it is -- we're seeing our overall guidance for the year is that we would start to slowly get a gradual improvement in the Full-Price trends we saw coming out of Q4. We have some pockets of inventory that we will go through, so we expect our markdowns to be higher. And so therefore, our product margin will be a little -- will be lower as well year-over-year. Because of the top line coming down, we would expect to see deleverage in our fixed SG&A expenses just because you don't have the top line there. So overall, we would expect Q1 on that comparison compared to last year will be below. As far as the share pieces to what we gave you the guidance based on the -- there's an average versus where we end the year, and Trina can work with you off-line on reconciling that.

Michael Charles Binetti - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then, I guess if we try to click down a little bit into the Full-Price business, and I guess you've diagnosed that some of the vertical brands may be -- went promotional on you and that could could've affect the trend rate in the fourth quarter, if I heard your comments a minute ago correctly. I'm trying to think why that behavior would change, with given so many of the brands are building their own direct-to-consumer businesses today. What would cause their behavior to change or if this is more of prescient comment about things to come that you'll have to be competing with the brands in the stores a little bit more as they build out their own D-to-C businesses.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Well, the promotional activity is usually a reflection of some kind of deceleration of sales trends, and they find themselves with too much inventory. So for us, we're on top of that as best we can be, and we paid the price a little bit to get ourselves in line. But we started the year in a pretty healthy position with inventory positions, even though we missed our sales plans. And even as we go forward, we're going to be down about 5% in our plans and receipts, if not more. I mean, we've got respond to that as time goes on. So I don't know. And I think, increasingly, it strikes us that our relationships with the brands, particularly as we become more edited in our offer, is much more strategic than it is transactional. And often times, we're trying to solve for the same issues. These guys have big retail initiatives, and it doesn't serve them well to run a super promotional business either. I mean, it used to be the biggest cry that they would have if we were super promotional with their business. So they know it's corrosive to the brand value that they have. So I think the biggest thing is for us to work up front with brands to be clear about what we see in terms of sales trends, planning the business right, ensuring that we've got good flow. So that's keeping ourselves nimble and agile by having relatively lean inventories. These have been fundamental practices that we've worked on for years, but it feels like it's coming into sharper focus. And I could just tell you from my personal experience of interacting with the leaders of these different brands we do business with, they are largely very interested in partnering with us in ways that they haven't in the past about how to flow inventory so it works to our mutual benefit.

Operator

Next is Chuck Grom with Gordon Haskett.

Charles P. Grom - *Gordon Haskett Research Advisors - MD & Senior Analyst of Retail*

Erik, Peter, our thoughts are with you and the team. Just Anne, just a couple for you. On the incremental expense savings that you talked about, the $150 million to $200 million, just wondered if you could flesh out what the impact is to your long-term guide in light of that. And then my follow-up question would be just we noticed that the number of Rack openings next year is going to be down significantly. I think you guys are outlining 5 stores versus roughly 17 in the past couple of years. Just wondering why the deceleration.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes, Chuck. So let me talk to you a little bit about the SG&A pieces and the incremental. So as far as the overall -- our long-term target, as I mentioned in my comments, the -- when we set the target -- or the targets from our Investor Day last summer, we have had a little bit of a -- we took a modest decline to sales. So that's come down little bit versus what we had set out as the target. But we are on our -- have more SG&A productivity savings. I would expect when you see that coming through for the year, you're going to start seeing some -- you're going to start seeing that coming through in our SG&A lines in the second quarter and then really progressing through the rest of the year. So overall, it should actually -- we should be in line from an EBIT rate percentage. It's just a few different levers to get there. And I think Pete can talk about the Rack.

Peter E. Nordstrom - *Nordstrom, Inc. - Co-President & Director*

Yes, there's no big, explicit message being sent about the number of stores where Rack stores are opening this next year. I mean, our strategy for a long time is to be strategic there. We don't have as long as a lead time to figure that out and plan it out. And frankly, we actually raised the bar on the expectations we have when planning a store in terms of the 4-wall profitability it needs to deliver. I think, just to be cautious, kind of given the environment we're in terms of what's happening with fiscal brick-and-mortar retailing. But the good news is we've been able to have success really across the board regionally with new Rack store opening. So again, I wouldn't read too much into that. I think we're going to continue to be opportunistic. We believe we can have more Rack stores successfully. And what typically happens in terms of the opportunistic part of it is when times get challenging for others, often times, that creates great real estate opportunities for us. So that's what we're taking a hard look at here over the next 12 to 18 months.

Operator

Our last question comes from Simeon Siegel with Nomura.

Simeon Avram Siegel - *Nomura Securities Co. Ltd., Research Division - Executive Director & Senior Analyst*

My condolences to the family as well. Anne, how was traffic versus ticket in this past quarter between Full and Off-Price? And then just is there any update to the Analyst Day plan to repurchase, I think, it was about $3.5 billion to $4 billion of stock or whatever that number was? So just if we can get an update on that.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thanks. So on the traffic versus ticket, I would say, in general, and we've talked about this, in Full-Price, we saw a deceleration -- pretty substantial deceleration in Q4. And our -- and for Off-Price, the trends really didn't change. So the biggest call out I would have on traffic is Q4 for Full-Price. As far as the share buyback, we laid out a plan, and I think you saw in Q4 we were part of that. That was part of our disciplined capital allocation approach, and we did see an opportunity to get in the market and buy back a lot of the stock. So we'll continue that approach. We haven't come off our plan. That was a 5-year plan. But I think you're seeing that we're executing against that.

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

Again, thank you for joining today's call. A replay, along with the slide presentation and prepared remarks, will be available for 1 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.
