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OVERVIEW:

Co. reported 2Q21 net sales decline vs. 2Q19 of 6%. Expects 2021 revenue growth to be more than 35%.

CORPORATE PARTICIPANTS

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

Erik B. Nordstrom *Nordstrom, Inc. - CEO & Director*

Heather Hollander *Nordstrom, Inc. - Head of Investor Relations*

Peter E. Nordstrom *Nordstrom, Inc. - President, Director & Chief Brand Officer*

CONFERENCE CALL PARTICIPANTS

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

Dana Lauren Telsey *Telsey Advisory Group LLC - CEO & Chief Research Officer*

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

Mark R. Altschwager *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Matthew Robert Boss *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

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

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

Paul Lawrence Lejuez *Citigroup Inc., Research Division - MD and Senior Analyst*

Simeon Avram Siegel *BMO Capital Markets Equity Research - Analyst*

Stephanie Marie Schiller Wissink *Jefferies LLC, Research Division - Equity Analyst and MD*

PRESENTATION

Operator

Greetings and welcome to the Nordstrom Second Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I'll turn the call over to Heather Hollander, Head of Investor Relations for Nordstrom. You may begin.

Heather Hollander - *Nordstrom, Inc. - Head of Investor Relations*

Good afternoon, and thank you for joining us. Today's earnings call will last 45 minutes and will include approximately 30 minutes for your questions.

Before we begin, I want to mention that we will be referring to slides, which can be viewed in the Investor Relations section on nordstrom.com. Our discussion may include forward-looking statements, so please refer to the slide with our safe harbor language.

Participating in today's call are Erik Nordstrom, Chief Executive Officer; and Anne Bramman, Chief Financial Officer, who will provide a business update and discuss the company's second quarter performance. Joining during the Q&A session will be Pete Nordstrom, President of Nordstrom, Inc. and Chief Brand Officer.

And now I'll turn the call over to Erik.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Good afternoon, and thank you for joining us today. We delivered strong second quarter results, driven by broad-based momentum across banners, regions and merchandising categories and the performance of our Anniversary Sale, in which sales exceeded 2019 levels, an important milestone. We capitalized on improving customer demand with solid execution, healthy inventory sell-through and continued expense management. Our performance demonstrates the power of our interconnected brands and the potential of our transformation as we execute our Closer to You strategy.

As consumer spending recovers, we are well positioned to capitalize on a significant opportunity to take market share and drive profitable growth with our expanding product offer, increasing customer engagement and integrated digital and physical assets.

We've now had 4 consecutive quarters of sequential improvement in sales trends for both our Nordstrom and Nordstrom Rack banners, with active customer accounts continuing to recover and approaching 2019 levels. Customers are increasingly engaging with us both in-store and online, as evidenced by continuing improvements in our store traffic and sales, along with robust digital growth. Our loyalty program remains a powerful engagement driver with loyalty club members contributing 70% of our Q2 sales, up 500 basis points from 2019.

We are very pleased with the performance of our Anniversary Sale with total event sales increasing 1% over 2019, including the final week of the event, which fell in the third quarter. As always, our Anniversary Sale rewards and engages our loyal customers with brand-new product at reduced prices for a limited time. The event was well-timed to serve increasing customer demand for wardrobe refreshes as they return to activities outside the home.

This year, we worked to further enhance the customer experience during the Anniversary Sale, adding new virtual and in-store events to drive engagement while building on successful components of last year's event, including digital catalogs with personalized editorial content and product recommendations, online wish list functionality and remote selling and styling tools.

Our Anniversary performance was an encouraging example of our evolution of our merchandising capabilities. By leveraging a more data-driven approach, along with our evolving partnership models with our vendors, we were able to increase event selection by 12% and reduce the rate of items sold out by 35% versus 2019, while at the same time maintaining a comparable sell-through and finishing with a healthy position in owned inventory as we exited the event. We are encouraged by the customer response to Anniversary, with record volumes on nordstrom.com and continuing improvements in store traffic.

Customers also leveraged the convenience of our integrated touch points, with order pickup in stores increasing 52% during the event compared to 2019.

Our merchandising and supply chain teams, along with our brand partners, executed well, ensuring that we have the right assortment in the right place at the right time to serve demand. Overall, our outstanding employees delivered an excellent customer experience, and we would like to take a moment to thank them for their contributions to a successful event.

In addition to strong top line and event performance, we made meaningful progress towards margin recovery this quarter, with reduced markdowns and solid sell-through as well as disciplined expense management.

Our second quarter performance reflects our steady execution and commitment to the strategic priorities we shared at our investor event: win in our most important markets, broaden the reach of Nordstrom Rack and increase our digital velocity.

As we work to win in our most important markets, our market strategy is a powerful enabler for the business, allowing us to better serve customers and provide greater access to product by linking our assets at the market level. We've seen a positive customer response to the enhanced capabilities we launched with our market strategy in 2020, including the extension of order pickup and ship-to-store to all Nordstrom Rack locations. In fact, during the Anniversary Sale, nearly 40% of next-day pickup orders for Nordstrom were picked up in a Rack store, evidence of the power of integrating capabilities across our 2 brands.

Our market strategy delivers incredible convenience that provides customers with 4x more product available for next-day pickup and a 1-day reduction in average shipping time.

Our second growth priority is broadening the reach of Nordstrom Rack. In the quarter, total Rack sales declined 8% compared to 2019, a nearly 5 percentage point sequential improvement from the first quarter. Despite challenges with inventory flow, we are encouraged by the early results of our merchandise repositioning efforts, with price-oriented offerings in active, home and kids delivering a combined double-digit sales increase in those categories. And in the 70 Rack stores that have been repositioned for a price-oriented offering, new-to-Nordstrom customer counts increased 16% over 2019. Going forward, we are committed to building on this progress by continuing to expand our Rack offering and delivering an assortment that appeals to a wider set of customers while deepening our offering for our core customers.

Our third priority is increasing our digital velocity across Nordstrom and Nordstrom Rack. This quarter, digital sales increased 30% over last year and 24% over the second quarter of 2019. We continue to drive growth at nordstrom.com and rack.com even as store traffic improved, a testament to the power of our interconnected digital and physical assets. We also completed the integration of rack.com onto the nordstrom.com platform, delivering a more seamless shopping experience and improved reliability, while positioning us for more profitable growth as we continue to scale our rack.com business.

During the quarter, we took another step in transforming our merchandising approach with our acquisition of a minority interest in 4 ASOS brands: Topshop, Topman, Miss Selfridge and HIIT. We believe this partnership will give us new opportunities to lead digitally and extend beyond our traditional wholesale model. We're happy to partner with ASOS, a world leader in fashion for the 20-something customer in offering a broader assortment to better meet their needs. We look forward to updating you on new initiatives under this partnership in the second half of the year.

As we look ahead, we are excited about the opportunity that lies before us. Our transformation is gaining momentum and positioning us to capitalize on a significant opportunity to profitably grow our business as demand improves. Though there is uncertainty regarding the future of the pandemic, we are closely monitoring impacts on the customer and supply chain while prioritizing the health and safety of our teams and customers.

We have demonstrated our ability to navigate a rapidly changing macro environment with agility and flexibility, and we will maintain that focus as we move through the year. While we're pleased with our continued progress this quarter, we remain committed to the work ahead to better serve customers, capture market share, improve our profitability and create value for our shareholders.

With that, I'll turn it over to Anne to discuss our financial results in greater detail.

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

Thanks, Erik. We're pleased with our continued progress in the second quarter. The benefits of our Closer to You strategy, the performance of our Anniversary Sale and continued financial discipline are evident in our results. Improving sales trends, a gross profit increase from healthy inventory sell-through and continued benefits from a reduced cost structure drove strong earnings this quarter. We also generated over $900 million of operating cash flow and took steps to further strengthen our balance sheet.

Beginning with our top line performance, net sales were down 6% in the second quarter compared to the same period in fiscal 2019, representing a sequential improvement of 700 basis points from the first quarter. The timing shift of the Anniversary Sale, with roughly 1 week falling into the third quarter of 2021, negatively impacted second quarter sales by approximately 200 basis points. Adjusting for this impact, sales trends improved approximately 900 basis points, with sequential improvement in each month of the quarter.

Sales improved across both of our banners with Nordstrom sales improving 800 basis points sequentially or 1,100 basis points after adjusting for the timing shift of the Anniversary Sale. Nordstrom Rack sales improved 500 basis points sequentially.

We saw strong balanced growth across both digital and stores. Our digital sales increased 24% over 2019 and 29% after adjusting for the timing shift of the Anniversary Sale. Digital traffic increased for both Nordstrom and Rack, and Nordstrom digital conversion reached a record high. Digital sales were 40% of total sales during the quarter, a bit lower than the first quarter as store traffic and sales trends improved across all regions.

Southern region stores continue to outperform our fleet average, but the gap narrowed relative to the first quarter.

As Erik said, our Anniversary Sale performance contributed to our momentum this quarter, with total event sales up 1% compared with '19. In addition to strong top line event performance, we were pleased with event profitability, supported by a compelling assortment that drove sales of higher-margin non-event merchandise.

As consumer spending and mobility increased, we were well-positioned to respond to pent-up demand as evidenced in the performance of our core categories. We saw customers refreshing their wardrobes, driving improvement in shoes, apparel and accessories compared to the first quarter. Our designer offering performed well across the business, with sales increasing over 2019. We also continue to see strength in pandemic growth categories, particularly active and home, where our sales increased over 50% compared to 2019 levels.

In the second quarter, gross profit as a percentage of net sales was flat compared with the same period in fiscal 2019, and lower markdowns enabled by healthy inventory sell-through offset deleverage on lower net sales.

Ending inventory increased 13% compared with the same period in fiscal 2019 versus a 6% decrease in sales. Inventory levels were impacted by the timing shift of the Anniversary Sale and our efforts to pull forward receipts to address continuing supply chain backlog and support improving sales trends. New deliveries and in-transit product represented the majority of our inventory increase in the quarter. Our inventory is current and well-positioned in key categories as we move into the back half of the year. Looking ahead, we are anticipating continued global supply chain backlog for the balance of the year, and we are proactively managing our receipt flows to mitigate potential disruption and continue to meet customer demand.

Total SG&A as a percentage of net sales increased 170 basis points compared to the same period in fiscal 2019 as a result of continued freight and labor cost pressures, partially offset by continued benefits from resetting the cost structure in 2020. We further strengthened our balance sheet, retiring $500 million in senior unsecured notes that were set to mature in October. This will reduce our annualized interest expense by $20 million beginning in the third quarter.

Now turning to our outlook for the remainder of the year. As you've heard today, we're pleased with the performance in the second quarter and the progress we're making on our strategic commitments. Consumer demand and engagement continues to be quite healthy. Our momentum exiting the quarter has continued into August, giving us confidence in the outlook for the balance of the year.

That said, there remains uncertainty in the external environment, and we continue to prepare for a range of scenarios. Our second half outlook assumes that consumer spending will continue to be supported by economic improvement and increasing consumer mobility. Given these macro assumptions, our first half performance and plans for continued progress in the second half of the year for fiscal 2021, we now expect to deliver revenue growth of more than 35% versus fiscal 2020. Depending on the pace of revenue growth, and the evolution of macro-related cost pressures, we now expect to deliver EBIT margin of approximately 3% to 3.5% for the full year.

As for the second half cadence, we expect the following quarterly progression versus 2019. We are projecting slight sequential improvements in sales trends from Q3 to Q4. We also anticipate that EBIT margin improvement will be weighted to Q4 as gross profit increasingly reflects the benefits of tighter inventory management and reduced promotions. We expect SG&A pressures primarily related to freight and labor costs to continue in the second half, resulting in SG&A deleverage similar to what we experienced in the first half.

We remain committed to our ongoing capital allocation priorities with our first priority being investment in the business. We're planning capital expenditures at normalized levels of 3% to 4% of sales, primarily to support investments in technology and supply chain capabilities.

Our second priority is reducing our leverage. Through a combination of earnings improvement and debt reduction, we are on track to achieve our plan to decrease our leverage ratio to approximately 3x at the end of this year and approximately 2.5x by the end of 2022.

Our third priority is returning cash to shareholders, and we expect to be in a position to do so by the end of the year. Overall, we are pleased with our continued progress against our strategic priorities, and we remain focused on the work ahead to drive market share gains, improve profitability and cash flow generation and drive shareholder value.

I'd like to now turn it over to Heather for Q&A.

Heather Hollander - *Nordstrom, Inc. - Head of Investor Relations*

Thank you, Anne. (Operator Instructions) We'll now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Edward Yruma with KeyBanc Capital Markets.

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

I guess really on SG&A, I understand you guys had some cost pressures related to labor and shipping. Wondering if those are more transient in nature? And then I guess when you did the headquarter reduction and took out that SG&A, has any of that had to come back? Or have there been areas of incremental investment along the way?

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

Ed, thanks for your question. As far as SG&A is concerned, we are anticipating headwinds on supply chain, primarily in freight costs as well as some of the disruption we're seeing globally as well as we've had some labor costs in certain markets as well. And so we baked that into our guidance for the second half of the year. And we're looking for -- constantly looking for offsets to that. We've got a number of examples we can provide in order to achieve that.

As far as the fixed cost piece to it, if you recall, in 2020, we took out about $400 million of expenses, of which 75% was permanent, and we're continuing with that through this year. We -- at the beginning of the year, we indicated that we had reduced our fixed cost expense by about 15%, and that's holding true. We are making investments in certain markets with labor, certainly, from a wage increase and certainly some investments in our supply chain capabilities as well. But we think that, that really helps us in the long term as far as making sure that we've got the right teams and the right level of staffing to ensure we serve the customer.

Operator

Next is Chuck Grom with Gordon Haskett.

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

You guys called out sequential improvement in each month of the quarter and some gains here in the month of August. Just wondering if you guys could quantify that. And then as a follow-up, just with regards to category performance. Just curious which areas performed better in the second quarter relative to the first quarter.

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

Thanks. I'm going to let Pete talk to you about the category performance, and then I'll circle back and talk about the sequential improvement.

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

Yes. It really was an interesting quarter because it showed a lot of change and improvement as things stabilize out there in the macro environment. And the thing that we saw that had the biggest -- the categories we saw with the biggest improvement towards the end of the quarter were things related to occasions and events because people are out there more often than they were before.

And so things like dresswear, occasionwear, men's sportswear, things like that, we had some real positive momentum. And when you add that to the fact that we had some categories that were really good during the heat of the pandemic times, namely active and home, we had several areas -- pretty much all areas where we were seeing improvement and some stability there.

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

As far as the sales cadence, as we talked about in the opening comments and just to provide a little bit more color on that, we did see sequential improvement throughout the month -- or throughout the quarter, certainly leading July into August was our strongest month, and we're continuing to see positive results out of that and gives us confidence in the second half. What I would say as far as the calendarization for the second half, while we're not providing quarterly guidance, I think it's important to note that we expect to see slight sequential sales improvement from Q3 to Q4, but really Q4 as being the momentum piece to it for a number of reasons.

One, we expect to see holiday being pretty tight from an inventory position in the marketplace. It allows, I think, better sell-through and fewer markdowns, which should deliver both sales and margin flow-through. And then lastly, we also expect to see reduced promotions, and we're actually comping a little bit of a fourth quarter for '19. We actually have -- it's an easier comp for us as well.

Operator

Next is Oliver Chen with Cowen and Company.

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

The business momentum has been encouraging. What are you seeing with inventory flows and supply chain? I know you called it out, so I was curious about availability and as -- are constrained supplies limiting the top line? And as you plan going forward, how might that bode for holiday?

A follow-up on ASOS, that's an interesting strategic alliance. I would love your thoughts on what you may contemplate longer term, as you mentioned, to pave the way for wider potential partnerships?

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

Thanks, Oliver. I'm going to have Erik address the supply chain question and holiday. And then, Pete, if you can talk about ASOS after that, that would be great.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. Thanks, Oliver. We have seen real lumpiness in the global supply chain that has led to some shortages and more so just unevenness. It's been difficult to plan inventory flow with much precision. We do not expect those conditions to change anytime soon. So it's really on us to find ways of mitigating that.

So we've done things like pulling forward orders, expanding lead times. We are looking to strategically use some air freight for holiday. We've also, during Anniversary, increased delivery frequency to our stores to help address the flow. So there are some things we can do internally to mitigate some of these impacts. But it has caused some disruption. And really, the shortages have been most impacted are -- has most impacted our Rack business. We have some categories in our Rack business that were light in the second quarter and are looking to get caught up there in the third quarter.

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

Yes. This is Pete. Relative to the ASOS partnership, it's definitely a real highlight of last quarter. And it represents a wonderful opportunity for us. Their -- ASOS are great retailers, and they're real leaders in the digital space with young fashion customers. They got a strong point of view. They're really interesting and exciting people to work with, and we were thrilled when they took the lead on -- made the investment with Topshop. They were a big customer of Topshop as were we, and so we have mutual interest in having that go well. And it just -- it seemed as we were in discussions with them about that, that the mutual opportunity was great, and it was an opportunistic situation for us to be able to take an equity stake of that and invest alongside with them, which I think really helps demonstrate that we both have skin in the game, which creates a lot of focus and energy about what we could do.

And the reason that it was worth investing for us is, while it was a big business, we also think there was a lot of upside. And then the frosting on the cake for us with that is ASOS also has a stable brand that we now have access to potentially and are working with Nick and the team there to see how we might be able to bring some of those products to market here in North America through Nordstrom.

There's just a lot of wonderful things about that. And so while investing in brands isn't necessarily our core strategy, we do have the wherewithal to do what we've done before. And we'll be opportunistic about those types of things in the future if the potential is there. And so I think we should read into this is there's a lot of potential, it's exciting and it's -- as things develop and when we make decisions about what we are doing together and have results about that, we will certainly inform you about it.

Operator

Next is Matt Boss with JPMorgan.

Matthew Robert Boss - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Great. So maybe just larger picture, as we think about your second quarter sales down mid-single digits and then the slight sequential improvement that you're expecting from here. I guess if we take a step back, how would you rank the headwinds that are preventing a return to revenue growth versus 2019 in the back half of the year for you?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Matt, well, we're both encouraged about this. The clear improvement we've seen, not just quarter-to-quarter but month-to-month within a quarter and having Anniversary with an increase over 2019 is another proof point along that journey. There's -- while sales have significantly improved over previous trends, there's plenty of areas that are not at peak efficiency. In particular, we just talked about inventory flow. That's been a challenge to the business. It impacts both top line and bottom line. So that's a big area of focus for us.

There's also lessons from Anniversary, both how we engage customers digitally and connecting them to our physical assets as well as having a more data-driven approach to our inventory mix that showed great results during Anniversary. And certainly, we will continue that through the back half of the year.

Operator

Next is Mark Altschwager with Baird.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. I guess, Anne, just bigger picture on the updated guidance. I guess the 50 basis point increase in your EBIT margin expectations at the high end, I guess that seems maybe a bit modest in relation to the 10 percentage point higher sales growth expectation. So I guess could you help us unpack that a bit more?

Based on the framework outlined earlier this year, I would have thought a $14.5 billion sales run rate would get to EBIT margins maybe closer to the 5% range. So maybe what are the -- what underlying assumptions have changed with respect to the flow-through in the back half of the year? And then just any other changes to how you're thinking about that multiyear sales and EBIT margin bridge versus what we've been talking about earlier this year?

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

Mark, thanks for the question. So while we're not guiding to 2022, what I can say is that we are on track to delivering on those commitments that we laid out from our investor event. Just to remind you, the first half of the year, in particular Q1, we knew we were entering Q1 pretty heavy in inventory and needed to work through that. That certainly put some headwinds into the year. As we've come out of Q2 and in the guidance we've given for the second half, the progress we're seeing on that, we are quite confident in our ability to continue to deliver on those commitments that we discussed with you.

As far as the flow-through components to it, we are -- as we talked about, we can deliver the same EBIT margins on $1 billion less of sales. That is still the case. We are still tracking to that and it certainly is baked into some of the guidance that we've given you for the second half. Having said that, we are still in a very challenging environment. And I think the thing with this team is you've seen that we've been very agile and flexible as we see how things evolve in the marketplace, and we've talked a little bit about some of the supply chain challenges that we've seen. And we're remaining very focused on delivering to our customers. And so we've -- there's a little bit of uncertainty out there that we've baked into some of the guidance as well as we thought it was pretty prudent.

Operator

Next is Omar Saad with Evercore.

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

I'd love to get a little bit more insight in terms of how you and your merchant buying teams are going to plan to balance this shift kind of to and from or between pandemic categories like home and active and to some of the more reopening type categories, dresswear, wear to work, dressier fashions, et cetera. And then maybe you could also include a discussion in terms of what you're seeing around in markets where that are more reopened, what kind of consumer behavior and category underperform and outperform? Are you seeing that balance shift back versus those markets that are still more locked down?

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

Yes. This is Pete. I'll start with that. I think one of the things that makes us feel confident going forward is a little more predictability and visibility in terms of what's happening. If you think about the beginning of the pandemic, I mean, it was so many unknowns out there and just how everyone's lives changed so much, and it created opportunities in some areas, and we talked about that with active and home, but huge, big parts of our business were really compromised just because the customer demand wasn't there for it.

Now we've moved into a time where there's a little more stability and people are out there quite a bit more. So we've seen improvements in our business related to, essentially closet refresh, as Anne talked about, wardrobe refresh, people not having bought clothes to be out there, living their life and whatever better occasion they may have for a while and needing to refresh their closets. In Anniversary Sale, we did well with things that are kind of like stock up and save item type business.

So I think we believe there will continue to be a return to somewhat of our legacy business around the core categories of the shoes and the women's and men's apparel. But I think it's also true that some of the things that we saw prepandemic around how things were evolving and changing, whether it's the casualization of America or whatever, that just all got accelerated. And so there's been a time here in the last few months, we've been chasing pretty hard back into occasion and event types of dressing, but we'll catch up to that pretty soon. And then I think, again, we should have some stability there. But ultimately, the key for us is to make sure that we have a relatively conservative position with inventory. We're selling through. We're remaining open to buy and flexible because it's just paramount, I think, given again, the relative uncertainty that we have now so that we're really focused on keeping that flexibility and that open to buy.

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

Any differences in the open markets versus the more closed markets?

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

Well, I think what we've seen is the suburban type stores have done better than the urban stores, and that's really mostly for reasons of -- you think of an urban type of store, they have 3 things that really drive sales. You've got the people that live there, you've got the people that work in that environment and come from all around and then you have tourism.

And particularly, when you think about people going into the workplace and tourism, those things have really gone, in some cases, to practically zero. So those stores are slower to rebound, where it's been more of a traditional kind of suburban market for us, we've seen all the businesses recover quite significantly. And you could see that just in terms of the sales store-by-store and region-by-region. But in terms of like categories, it's really more common and similar, I think, across the North America than really regional specific. We saw a lot of demand around things related again to occasions and events as we came into the summer, weddings and those kinds of things. And that was true everywhere.

Operator

Next is Simeon Siegel with BMO Capital Markets.

Simeon Avram Siegel - *BMO Capital Markets Equity Research - Analyst*

Anne, did you guys talk about what price versus units were within that 1% Anniversary Sale growth over '19? And then I assume it's small, but just curious of any early thoughts on the Tonal partnership and does that rollout suggest a broader opportunity for any similar type of moves?

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

We didn't give particular feedback between price and units on Anniversary. Just we're seeing strong customer demand. We're seeing customers spend more and engaging with us more. I think you've heard the commentary from all of us on the call today, there is just pent-up demand out there, and customers are looking to refresh what they're wearing. And so across the board, we're seeing a really positive response to the offering, which just gives a lot of credit to our merchant team for picking and selecting the right offering for our customers during Anniversary.

As far as Tonal, Pete, I don't know if you have any color commentary there.

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

I Yes, I think what Tonal represents is our ability to react in the moment to great opportunities that might be out there. And anything that's of interest to our customers is something we're interested in pursuing. And so in this case, Tonal had approached us, and we have a very large and growing active business, and it felt like a really good synergistic thing to be able to try and we're all for trying things like that. And I think it was a great example of a partnership that there was mutual benefit there to be had, and I give a lot of credit to our team to think a little bit outside the box on that.

But it's somewhat similar to the ASOS saying, "Well, that's a bigger, more commercial venture." I think it represents the creative and innovative thinking of our merchandising teams in terms of ways of creating compelling experiences and products for customers that may not have been a traditional kind of a transactional wholesale retail model. And while the Tonal thing might be a relatively small example for that, again, I think what you guys should be thinking about seeing there is the willingness, the openness and the ability to be able to pursue opportunities like that.

Operator

Next is Paul Lejuez with Citigroup.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

Question on Rack, still running well below F'19 sales. That includes e-com growth, I believe. So just curious how you're looking at store volumes relative to '19? The profitability of that business as we think about that 3.5% margin, how does Rack look relative to the full price stores? And what are you thinking in terms of ultimate store potential if anything has happened over the last 2 quarters that kind of influenced how you're thinking about the long term on Rack.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Thanks, Paul. Rack, it started with meaningful progress. We made good progress on, our focus, which our focus across our business is market share gains and profitable growth, and from Q1 through Q2 we had meaningful progress in Rack. In particular, we've had a focus and we've got a well-researched belief that we have opportunity to widen the aperture of our business by layering on some lower-priced products. We know we have customers in our stores, they're looking for that product and we have an opportunity to serve them.

And 2 data points I'd share with you on that. One is category-wise, active, home and kids for us in Rack are ahead in having a price-oriented offering. Those 3 areas together showed double-digit growth versus '19. And then we took 70 stores, 70 of our Rack stores and repositioned them for a more price-oriented offering. And one of the real goals with that is to acquire new-to-Nordstrom customers. And our new-to-Nordstrom customer count in those stores increased 16% over 2019.

That being said, it has been lumpy in the supply chain. So we're -- we do not have the full price offering that we want yet. We're in early innings there. But again, with some encouraging proof points there that give us confidence in progress. So the headwind, as we mentioned, really has been inventory flow. In particular, women's apparel and shoes in our Rack business have -- we've been under inventoried, and it's been more challenging there to get the product we need. That's starting to turn. We see some encouraging signs for Q3. So between the progress on layering the extra price and being able to address inventory flow, we have some confidence in continued improvement out of our Rack business.

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

And to your question on profitability, just in general, our Rack business and our Nordstrom banner business are pretty much at parity from an EBIT perspective. And there's puts and takes on the P&L. So typically, our Rack business will have a lower gross margin and lower SG&A as an offset to that. But at the end of the day, those businesses are typically at parity.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

Did that held true? And even though Nordstrom's closed some stores and is doing sales volume in '19, it's a little bit -- versus '19, it's a little bit better than Rack, which has opened some stores? Is that still holding true?

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

Yes. Over the long term, and look it's going to be in a moment in time, there may be puts and takes here and there. But over time, it's pretty consistent, yes.

Operator

Next is Steph Wissink with Jefferies.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

We have a question on Anniversary Sale. If you could talk a little bit about traffic versus ticket. I think you mentioned traffic improving, but maybe not back to '19 levels. Just help us contextualize Anniversary Sale and then maybe how you're thinking about back half in terms of traffic.

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

We -- so this is Anne. We don't -- we haven't given a lot of details around traffic and ticket pieces to this. In general, our traffic -- we've seen improvements in traffic. We're not quite at 2019 levels. We are seeing higher conversion for sure. So as customers come in, they have a higher intent to purchase, and they're typically having higher -- larger baskets with that as well. So as we look at the second half, there were a lot of lessons -- or things that went really well with Anniversary and some things that we learned that we're going to take into holiday as well. So I would anticipate that you'll see some similar thinking as we approach the next event.

Heather Hollander - *Nordstrom, Inc. - Head of Investor Relations*

And now, we'll take one more question.

Operator

Our final question is from Dana Telsey with Telsey Group.

Dana Lauren Telsey - *Telsey Advisory Group LLC - CEO & Chief Research Officer*

As you think about the Rack and the price point expansion that you're doing at the Rack, how is that -- how are you moving that forward beyond the 70 Rack stores where you're positioned for a price-oriented offering? And what do you see in the performance of those stores? And then this year, it seems like one of the things that was different with the Anniversary Sale is that you got more sales of non-event merchandise. How do you think of that in positioning for go-forward sales and also for holiday?

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

Thanks, Dana. I'm going to let Erik talk about Rack and then Pete, maybe you can talk a little bit about the merchandise.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. For -- what we're learning on the price offering, there's certainly some -- we believe, some difference in the mix by store location. But it is nuanced. It's -- depending on the categories, but particularly our strength. Our historical strength in Rack is brands that we carry almost all of the brands that we carry in our Nordstrom brand business -- in our Nordstrom Rack banner.

And customers know they can get those brands that they know and love. And for our brands, it helps them get introduced to new customers that often become full-price customers. So it's much more of a, I think, a balance of mix across price points and brands. And again, we think a lot of it is an "and" story, not an "or" story that we can continue to take care of customers with these big brands while also layering in some more price points that would be new brands just in our Rack channel.

Peter E. Nordstrom - *Nordstrom, Inc. - President, Director & Chief Brand Officer*

Dana, so related to Anniversary, this -- I'm sure you can appreciate with a challenging Anniversary because you think about when we bought for it, if it's 5 to 8 months out, and we were right just smack dab deep in the middle of the pandemic. And so what we -- there were some things we knew were performing, but we weren't sure how we were going to come out of that or what really to expect. We did feel like there was a reasonable chance even that far out that this could represent a moment in time, a tipping point of people kind of getting back out there a little bit. That largely played out to be true. But I think it was difficult for us to buy in the categories that, in that moment, were like 100% not good at all.

So I think as a result, you probably saw a fair amount of action on some stuff that was not on Anniversary just because I think our inability to be able to forecast much more accurately. But I can tell you, we increased our event selection by 12% over '19. We also reduced our rate of items sold out by 35% over '19 on Anniversary products. So in a lot of ways, we executed really well against the plan to make Anniversary an efficient, profitable, improved event for customers and for the bottom line, too, and you saw a lot of progress with that.

And so I think, again, I would probably best to look at last Anniversary as a bit of an anomaly and a one-off and maybe not entirely indicative of how we would, I guess, how it would play out for future Anniversaries. But I can tell you that the scaled events part of it, kind of the process and the execution of it, is something that we can learn from, have improved upon and it should benefit us even as soon as coming up in holiday, too, where there's a lot of similar parts of kind of a scaled event time frame that we will leverage the learnings of this last Anniversary.

Heather Hollander - *Nordstrom, Inc. - Head of Investor Relations*

We want to 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.