Q2 2020 NORDSTROM EARNINGS CALL – PREPARED REMARKS

ERIK NORDSTROM

Good afternoon and thank you for joining us. Before discussing the quarter, I'd like to take a moment to share our approach to managing through this current environment.

We're pleased with how we executed our plan for Q2. At the onset of the pandemic, our primary objective was protecting and enhancing liquidity. Given the uncertainty over how long our temporary store closures would last, and with inventory as our biggest investment, we took decisive action to minimize risk and stabilize our business.

In the first quarter, we significantly reduced inventory levels by more than 25 percent, allowing us to mitigate markdowns and bring in newness for customers. As the pace of change in customer behavior continues to accelerate, we also took proactive steps to execute our strategic plans with greater speed. This included restructuring our organization and permanently closing 16 full-line stores, which contributed to overhead cost reductions of nearly 20 percent in the second quarter.

From a topline perspective, we achieved our expectations and identified opportunities to drive further improvement. Our streamlined operations and inventory position gave us flexibility to bring in new and relevant product. While inventories were constrained and we left some demand unmet, our decision to be prudent with our inventory plans helped deliver better than expected merchandise margin, earnings and operating cash flow. We exited the quarter in an advantageous position, with inventories clean and with open to buy to capture customer demand.

We increased receipts in July as we geared up for our Anniversary Sale that began on August 4th. This is our largest event, offering new arrivals at limited-time savings. We're in the final week of the event, and results are in-line with our expectations, reflecting a notable sequential improvement in Full-Price sales trends. In Off-Price, traffic remains consistent, and we're starting to see steady improvement in conversion and sales as we begin to flow in inventory receipts.

In our digital businesses, traffic grew by double-digits year-over-year and sequentially improved from Q1, indicating signs of increasing customer demand. As we experienced last quarter, we had more than 50 percent growth in new Nordstrom customers through our digital platforms. We also increased customer engagement of contactless services such as curbside pickup and returns, which represented one-quarter of order pickup volume. In total, order pickup is approaching 15 percent of Nordstrom.com sales.

With our financial position strengthened, we're now pivoting to prioritize market share gains and profitable sales growth. This includes building on our heritage of service to accelerate growth initiatives. We made foundational investments in our market strategy, our Nordstrom Rack brand offering, and digital capabilities to scale our business.

As we look ahead, our team is unified in executing our market strategy to deepen customer engagement with a focus on offering a seamless and personal experience, however they choose to shop with us. In five of our top markets, we're providing customers with greater merchandise selection and faster delivery while increasing engagement through services. We're on track with our plans this year to scale our strategy to 10 total markets that account for over half of our business.

To summarize the quarter, we executed on our operating plan, delivering earnings and cash flow well ahead of our expectations. Through our inventory and expense discipline, we improved merchandise margins and achieved greater operational efficiencies on a lower cost structure. Ending the quarter with $1.3 billion in liquidity, we generated more than $185 million in operating cash flow, realigned inventory levels, and reduced overhead expenses by nearly 20 percent.

Our Anniversary Sale is an important opportunity for us to provide a one-of-a-kind experience for our loyalty customers while introducing new customers to Nordstrom. Due to COVID-19, we moved our event from July to August to help ensure the safety and comfort of our customers and employees and to deliver the most relevant merchandise assortment.

Our approach to planning and executing Anniversary reflects how we're leveraging our customer insights and enhanced agility to drive both top-line and profitability during this important period. We took actions to meet evolving customer preferences by expanding our assortment to reflect growing preference for categories focused on casualization, comfort, wellness and home. For the first time, customers could preview items through a digital catalog and build a wish list to enable them to check out faster when it was time to shop. Our customers created nearly 20 million wish lists, which was not only a great way for them to engage early, but also allowed us to adjust in real-time to high demand items.

For Holiday we plan to continue to build on last year's success, with an emphasis on expanding our assortment of giftable products with greater breadth at lower prices and across categories. We're focused on making it festive and easy for customers to shop by emphasizing our convenient services and experiences in stores and online. Using an approach similar to what has been successful in Anniversary, we will continue to leverage data to inform our assortment and categories that are resonating with our customers.

Our unique business model is a competitive advantage. We are building on the strengths of our Nordstrom and Nordstrom Rack brands, seamlessly across stores and online, to serve customers on their terms through a combination of convenience and connection. We expect to deepen our relationships with existing customers and attract new ones, driving market share gains and profitable growth.

We have also worked for the last several years to create a more flexible organization. With the resetting of our base cost structure, we have become leaner and more efficient. When combined with a capital structure that provides a strong foundation for reinvestment, we are well-positioned to respond quickly to a period of accelerated change in customer behavior. We look forward to providing additional details on our growth strategy at our virtual investor event later this year.

Finally, I want to thank our entire team for their dedication and commitment to our customers. Our brand is defined by the exceptional service that we strive to provide for customers. Thanks to the hard work of our people throughout the company, we believe we will successfully emerge from this pandemic in an even stronger position to serve customers.

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As we continue on our recovery path, we're confident in our ability to deliver sequential improvement in our business. Our capital structure and liquidity position provide a strong foundation as we build on the success of our market strategy and further leverage our strategic investments to drive sustainable long-term growth.

For Q2, we reported a loss per share of $1.62 and EBIT loss of $370 million, including COVID-19 related charges of $0.08 or $23 million primarily associated with corporate asset impairments. Earnings, cash and liquidity came in well ahead of our expectations, driven by improved merchandise margins and significant reductions in our overhead costs.

We benefited from the continued progress we are making on permanently reducing our cost structure. In addition to planned expense savings of $200 to $250 million at the beginning of the year, we're continuing to execute cash savings across expense, capex and working capital of more than $500 million, net of COVID-19 related expenses. Tracking ahead of our plans, we realized $420 million in cash savings year-to-date.

Turning to our financial position, we ended the quarter with $1.3 billion in liquidity, including $1 billion in cash. Despite our stores being closed for roughly 50 percent of the days in Q2, we generated operating cash flow of more than $185 million, enabling us to pay down $300 million on our revolving line of credit. From a capital allocation perspective, our long-term financial principles remain the same. While we reduced our annual capex plans by roughly 30 percent, we're continuing to invest in technology and supply chain to provide a seamless digital and physical customer experience and drive profitable growth.

Turning to sales, our Q2 decrease of 53 percent reflected extended store closures in our East and West coast markets that have been more impacted by COVID-19. Our results also included a timing shift of approximately 10 percentage points from moving the entire Anniversary event from Q2 into Q3.

Overall, sales were in-line with expectations. Full-Price sales decreased 58 percent, or in the mid-forties range when excluding the Anniversary shift. Off-Price sales decreased 43 percent. Across both businesses, top performing categories included home, kidswear, accessories, beauty and active.

Our initial store reopening trends improved from May into June and were slightly above our expectations. In addition, we had fewer merchandise returns than we expected, which benefited sales and merchandise margins. From a store traffic perspective, while we saw deceleration in July with the surge in COVID-19 cases in several of our larger markets, overall traffic trends have stabilized and improved.

Our digital sales decrease of 5 percent was impacted by the Anniversary shift. Excluding this shift, digital sales grew approximately 20 percent, reflecting a benefit from lower merchandise returns. Conversion and demand trends were suppressed as a result of the constraints on inventory flow that Erik mentioned.

Moving to gross profit, our rate was 21 percent, down from 35 percent last year, due to planned markdowns and deleverage on lower sales volume. Merchandise margin trends exceeded our expectations and improved relative to the first quarter. We attribute this to our efforts to significantly reduce inventory levels in Q1 to mitigate markdowns on out-of-season merchandise. We exited Q2 in a clean position, with the inventory decrease in-line with sales when excluding the Anniversary shift.

In SG&A, expenses decreased approximately 33 percent from last year, when excluding COVID-19 related charges. This was primarily driven by lower sales volume and reduced overhead costs of nearly 20 percent. Most of the reductions to our cost structure are permanent, positioning us well for improved EBIT flow-through.

As we head into the second half of the year, we're continuing to take a flexible and prudent approach to planning our business. Given the highly uncertain environment, we are prepared for a range of scenarios to ensure we can sustain and grow our business. We're confident in our ability to continue developing critical enablers of the customer experience while maintaining the ability to adjust quickly. Based on current trends and our inventory plans, we're expecting sequential and gradual improvement in sales, earnings, and cash flow in the back half of the year. These expectations incorporate the Anniversary shift, our stores remaining open, a continuation of increased inventory receipts in Full-Price, and a steady flow of inventory receipts in Off-Price that began this month.

In closing, our actions to shore up our financial position in the first half of 2020 allow us to head into the second half of this year and prepare for 2021 from a position of strength. We have accelerated our long-term strategic plans by optimizing the mix of physical and digital assets and increasing our agility through a leaner and more efficient organization. We made meaningful reductions to our cost structure, enabling us to drive higher profitability during our sales recovery. Over the near and medium term, we're focused on reinvesting in our strategic growth priorities to deliver a best-in-class customer experience while maintaining a strong balance sheet. As we emerge from this disruptive period, our ambition is for Nordstrom to be positioned as a retail winner by gaining market share and driving profitable growth.