NORDSTROM Q1 2017 EARNINGS

Prepared Remarks - Blake Nordstrom, Co-President, Nordstrom, Inc.

Good afternoon, everyone. Before we review our first quarter results, I'd like to provide some context about how our business has evolved and the direction we're heading. Over the past decade, we've transitioned from being a predominantly mall-based store business to one that is more diversified -- with multiple ways for customers to shop with us. During this time, we've invested in capabilities to better serve our customers and gain market share. This fueled our e-commerce growth, increased our customer base, and enabled us to expand into new markets. Through these efforts, we've added nearly $6 billion to our top-line.

In keeping our customers at the forefront of everything we do, our business looks very different today:

- Nearly one-quarter of our sales are from online purchases, compared to roughly 5 percent from ten years ago.
- We've added more ways to serve customers through our acquisitions of Trunk Club and HauteLook
- Nordstromrack.com and HauteLook are on track to be our fastest-growing business to reach $1 billion.
- We offer a variety of services that support our customers' needs around convenience, such as buy online pick up in store, curbside pickup, and same-day delivery.
- We continue to invest in critical talent and capabilities around technology, mobile, data analytics, and supply chain.

Our local market assets -- our stores, salespeople, product, and services -- represent the core of our brand. We're fortunate to have a high-quality portfolio of 122 full-line stores, with all of our comp stores generating positive cash flow. Furthermore, our stores play an important role in attracting and retaining customers. Nearly 80 percent of customers who shop with us across multiple channels began at our full-line or Rack stores.

We've strategically grown our off-price business, which represents roughly 30 percent of sales. It's positioned as our largest source of new customers, with the average age skewing younger than our overall business. About one-third of customers who start shopping at the Rack will also cross-shop in our full-price business. We believe this is a unique, competitive advantage in the market.

Because our customers' shopping experience may be influenced by multiple touch points, it's important that we view our business from the perspective of the markets in which we serve them. We're finding that measuring our outcomes through discrete channel metrics, such as store comps, are becoming less relevant. As we continue to head in this direction, we're increasingly looking at our business as full-price and off-price, inclusive of stores and online, to better capture the synergies of having a physical and digital presence.

Now, I'd like to discuss our first quarter results. Our earnings were in-line with our expectations. We reported earnings per diluted share of $0.37, which included a one-time charge of $0.06 associated with a $650 million debt refinancing in the first quarter. Last year, EPS of $0.26 included a $0.10 charge primarily related to higher credit chargebacks as we transitioned to a change in industry liability rules. When excluding these charges, our first quarter earnings increased 19 percent on a comparable basis.

While we’re pleased with our inventory and expense execution, we’re not satisfied with our top-line results. Total sales increased 2.7 percent while comps decreased 0.8 percent. This was generally consistent with the trends we’ve experienced over the past year.

In our full-price business, total sales decreased 1.7 percent and comps decreased 2.8 percent. From a merchandise perspective, we had strength in our men's and women's apparel while accessories remained soft. Our expansion in full-price gross margin reflected the continued strength of our regular-price sales. Our focus on expanding product with limited distribution helps us provide customers with the most sought-after brands, while mitigating our business from the promotional environment. These efforts contributed to a 100 basis point increase in the mix of regular-price sales in our full-price business.

In our off-price business, total sales increased 8.7 percent and comps increased 2.3 percent. We took additional markdowns on slower moving items, which impacted gross margins.

Overall, our gross profit rate was slightly up from last year. We ended the quarter with inventory growth in-line with sales growth.

Moving to our 2017 outlook, our plan is grounded in the sales trends we've experienced over the past year. We are reiterating our EPS range of $2.75 to $3.00, total sales growth of 3 to 4 percent, and approximately flat comps.

As we look ahead, we have a number of opportunities to drive growth:

- From a merchandising perspective, we continue to focus on providing customers with newness through a greater emphasis on limited-distribution and relevant product.

- Our long-term ambition is for continued double-digit online growth. We've been able to increase the speed and agility with which we roll out enhancements to our product pages, navigation, and content.
- Mobile is integral to the customers' shopping experience, and it accounts for more than half of our online traffic. We're continually testing and rolling out new ways to connect the physical and digital experiences. As an example, we're expanding Reserve Online and Try On In Stores from 6 to 50 stores this year.
- This fall, we have our sixth full-line store opening in Canada -- at Sherway Gardens in Toronto, and two full-line store relocations in California -- at Westfield Century City in Los Angeles and at University Towne Center in La Jolla. We have opened six Racks so far in 2017 and have 11 more opening in the fall.
- Additionally, we're excited about our Manhattan flagship which is on track to be completed in 2019. We recently announced a phased approach with the men's store opening first in spring 2018.

Finally, I'd like to share that we're looking forward to having Anne Bramman join our team as CFO on June 2nd. She brings extensive retail expertise with demonstrated success as a business partner and a steward of capital. Anne is succeeding Mike Koppel, who retired at the beginning of this month. Over the past 16 years, Mike has provided insight to the leadership team into how we can best utilize the company's resources to produce the outcomes we aspire to achieve. Our financial standing and overall reputation have been greatly enhanced by his leadership. I'd personally like to thank Mike for his many contributions. I'll now turn it over to Trina for Q&A.